

REFINANCING A MORTGAGE: A STEP-BY-STEP GUIDE

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By Gary H. Ditto, G.R.I

With the drop in interest rates, many homeowners have been mortgage loans to reduce monthly payments. Or, for homeowners who meet lender requirements, refinancing is a way to get equity out of your home.

Some experts feel that the time to refinance is when the rate you are now paying is 2% higher than the current rates. However, the decision is not quite that simple. Refinancing is costly, so you want to be reasonable sure you'll be staying in your home long enough to recoup these costs.

In this article I'll explain the basic steps involved in refinancing. I'll also use a hypothetical example to show the dollar impacts.

Your Role. When you refinance your home you repeat the entire loan and settlement processes involves in your original home purchase. But there is one major difference. You will be in charge of making all the necessary arrangements yourself, rather than working through a real estate agent.

If you decide to refinance your home, you can use the following checklist as a guide. I'll be glad to answer any additional questions you may have.

1. SHOP FOR A LOAN AND LENDER

A good reference on interest rate information and sources of loans is the Real Estate Section of the each Saturday's Washington Post. Although you can scan this section for mortgage lenders, be sure also to discuss your plans to refinance with your current mortgage holder. Some lenders give their current customers a break on "points" – the fee charged for issuing a new loan. (One point equals 1% of the loan amount.)

2. COMPLETE THE LOAN APPLICATION PROCESS.

After choosing your lender and loan (see tips below), you must complete a loan application. The loan application process also includes these three steps:

*Ordering an appraisal of your property.

*Providing personal credit reports.

*Submitting employment verifications.

One decision you will make is whether to pay the refinancing costs separately or whether to have them built into the loan amount. The amount of equity you have in your home and the loan-to-value ratios that are acceptable to your lender will determine whether it is possible to build these costs into the loan.

3. WORK WITH A SETTLEMENT ATTORNEY.

Your settlement attorney will order a new survey and title search for your property. The attorney will also arrange for your current lender to pay off your existing loan. You can expect to pay \$300 to \$325 for these services. You should also plan to spend about \$75 for miscellaneous fees.

4. TAKE OUT A NEW HOME INSURANCE POLICY.

Although you already have home insurance, you must take out a new home insurance policy. Just inform your insurance agent of your planned refinancing. Your agent will cancel your current insurance policy and issue a new one. You will have to pay for the new policy, but you will receive a refund of the unearned premium on your original policy. Your insurance agent will need to know the lender's name, the loan amount, the settlement date, and the house address.

5. OBTAIN A TERMITE INSPECTION

Lenders require a termite inspection, which costs about \$40. The termite inspector will send the report either to you or directly to your lender.

6. PURCHASE TITLE INSURANCE

Lenders require a title insurance policy on the amount of the loan. However, I recommend that you obtain title insurance to cover the full value of your property. Title insurance is a one-time charge that protects you from real or spurious claims by others against your property for the duration of your ownership. Ask about substitution or reissue rates, if you purchased your home less than 10 years ago, you may be eligible to receive a discount on a new policy.

7. FIGURE STATE AND COUNTY TAXES

You don't have to pay the county or state transfer tax when you refinance your home. However, you must pay a state recordation tax of \$4.40 per \$1,000 for the difference between the loan being paid off and the new loan.

Example: New Loan: \$100,000

Old Loan: \$ 85,000

Difference: \$ 15,000

$\$15,000 \times \$4.40 = \$66.00$, the tax you must pay.

8. OPEN NEW ESCROW ACCOUNTS

Escrow accounts are not transferable between loans and lenders, so you must open a new account for property taxes. The money in the old account will be refunded.

9. KEEP TRACK OF COSTS

Keep a record of the costs associated with refinancing your mortgage. Some of these are tax deductibles; consult your accountant for details. Standard costs are the advanced interest payments, the advanced property tax payments, the advanced interest payments, and the "points" paid to obtain the loan.

IN CONCLUSION....

This article has highlighted the major steps required to refinance your home. Real estate transactions are very complex, so your home refinancing may involve factors that differ from the ones discussed here.