

MANAGING YOUR MONEY



What To Consider When You Want To Refinance

(NAPSA)—Staying up to date with the latest developments in the mortgage market could save you money.

For example, recent interest rate cuts by the Federal Reserve were intended to calm the nerves of the financial markets, but the reductions created another spin-off: It became easier for homeowners to refinance their mortgage and thus lower their monthly loan payment.

The big winners were consumers with adjustable-rate mortgages (ARMs) that were due to reset at higher interest rates. But homeowners should know there is more—much more—to a refinance decision than a simple drop in interest rates.

Bob Caruso, a loan servicing executive for Bank of America, says the tipping point is all about payback. Specifically, the payback period.

Payback is measured in months. The variable is the difference between what you pay in closing fees on the refinanced loan and the savings in monthly payments. For example, if your closing costs for a refinanced loan were \$2,500 and your monthly savings were \$500, you could expect “payback” after the sixth month.

If you're on the fence or undecided whether a “refi” will work for you, here are Caruso's rules of thumb:

- If current rates are lower than your mortgage rate, determine how much you can lower your payment and what the closing costs would be.
- If you can get a zero close cost offer and a reduction in your



When deciding whether to refinance your mortgage, there's more to consider than a simple drop in interest rates.

payment, it may make sense to “refi.”

• **Fixed rate or ARM?** If you plan to remain in your home for a short period of time (the number of years depends on your type of ARM), then the immediate benefits of adjustable-rate mortgage can make sense. If you plan to stay in the home for the long term, then the higher initial interest rate of a fixed-rate loan makes sense, too. Either way, talk to your lender about the pluses of either method.

You can find refinance mortgage calculators online, but Caruso says many Web-based calculators compute savings based only on interest rates. Closing costs must be factored into the equation. Calculators that compute potential costs are found at www.bankofamerica.com/loansandhomes.

Another upside to a refinanced loan: You may save on taxes. Call a tax adviser, because your case might differ from that of other homeowners.