3 Myths about Mortgage Refinancing: Debunked

Myth #1: There is a no-cost option for Refinancing.

There is no such thing as zero costs associated when refinancing a mortgage. There are low cost options and full cost financing, but refinancing is never “free”. There are many things to consider when refinancing a mortgage and all of them are associated with a cost.

To refinance, a new appraisal is needed and the appraiser charges a fee. In addition to his fee, there is a fee for the credit reporting agency, fees for the lending company and fees to the government for the title search, title insurance and recording. Should an escrow account need to be set up for taxes and insurance, the bank will charge a fee and the lender usually requires two months of each payment at the closing of the home.

So the question becomes: if there is no such thing as free refinancing, how does one refinance their home affordably?

One of the ways to “affordably” refinance is to take advantage of a “no out of pocket expenses refinance option” by adding the taxes, insurance and fees associated to the backside of the loan. For example, consider a consumer with a $250,000 30-year mortgage with a 5.5% interest rate and a mortgage payment of $1420 a month who wants to lower the monthly payment.

The consumer would get a new 30-year mortgage for $255,000 that would pay off the existing mortgage and leave a balance of $5,000 for tax and insurance escrows as well as closing costs. The new interest rate of 4.25% would result in a monthly payment of $1,255 and a savings of $165 a month. Because there is none of the consumer’s actual money funding the escrow expenses, the result is no “out-of-pocket” costs.

This option for refinancing is a very popular one and if the goal of the consumer is a lower monthly payment, the goal is achieved through the use of this option.

Myth #2: The process of Refinancing is Brutal

With so many aspects to consider such as interest rates, annual percentage rates and deciding how long to live in the home - the process can be quite daunting for some, but it doesn't have to be. When considering a mortgage company to refinance with, the consumer who considers a brokers who will streamline the process, assist with gathering the required information and walk the consumer through the process in an easy to understand way will find the peace of mind their looking for without getting overwhelmed.

At the end of the day, when the refinancing process is complete the consumer usually ends up in a better position financially, with either a shorter mortgage term or a lower monthly payment.

Myth #3: If a mortgage has been refinanced in the last two years, it should not be refinanced again

Since Mortgage Rates began to fall in November of 2008, sadly millions of consumers were forced to refinance their home two or more times just to stay afloat. Now that the rates are dropping any lower, the conundrum becomes whether or not to refinance again. Formerly thought of as a bad idea due to bad advice or financial consulting, refinancing their mortgage is now helping consumers get control of their finances by offering the no fee interest rate.

As mentioned before, the no fee interest rate adds a balance to the back end of the loan but results in a lower monthly payment. An important key to keep in mind when considering refinancing is determining which plan suits the consumer's needs best. If the no fee interest rate is the same or higher than the current interest rate than its better not to refinance.