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If Falling Rates Make You Think of Refinancing, Here Are Some Considerations

Yes, mortgage rates have fallen. Are you rushing to "refinance" or standing on the sidelines waiting for rates to fall lower? I recently spoke with **Jaxzann Riggs**, licensed mortgage broker and owner of **The Mortgage Network**. This is what she said about refinancing.

Let's Talk Home Financing

By JIM SMITH Realtor®

Thirty-year mortgage interest rates have improved a full percentage point since May and one and a half percentage points since their October 2023 high. The news is filled daily with reports that the Federal Reserve will be reducing the "Fed Rate" soon, but it is important to note that there is ***no direct correlation*** between the "federal funds rate" and mortgage interest rates.

The lure of a lower rate is powerful, particularly when marketed as a "No-Cost Refinance." Borrowers should ***not*** automatically assume that their current mortgage servicing lender will offer the best rate and terms available on a refinance.

Your first consideration should be, "How long will I own this property?" Next, you need to ask the following questions of your lender, and you need to understand the implications of each answers:

What are the "hard closing costs" associated with the new loan?

Am I paying "discount points" for a lower interest rate?

Is my loan amount being increased to cover these costs, and if so by how much?

How much cash must I bring to the closing?

How long will it take me to recover the cost of a refinance?

Traditional wisdom is to wait until rates are 1% lower than your current rate before refinancing, but that is not the case for all borrowers. Here are factors that impact refinance benefits:

Has my credit score increased?

If so, you might be surprised at how much a higher credit score will improve your interest rate. Remember that the credit score that you see in "consumer reports" is always lower than those that mortgage lenders use. Jaxzann and her team will happily run a "soft pull" credit report for you to see if your improved score can benefit you.

Has my property value increased?

If so, your "loan to value ratio" may have improved. A lower ratio always equals lower rates.

If you pay mortgage insurance and your value has increased, you may be able to eliminate that portion of your total monthly payment.

Was my loan a conventional "conforming loan," a "high balance loan" or a "jumbo loan"?

Loan limits and corresponding pricing tiers for each loan type change annually. As an example, you may currently have a "jumbo loan" but based upon annual loan limit changes, it may now be considered a "high balance loan." That could earn you a lower rate.

Do I have a federally insured (FHA) or a Non-Qualifying Loan?

If you have an FHA loan, you pay mortgage insurance monthly. You may be able to eliminate this expense by changing loan types.

If you have a "non-qualifying loan" and your employment or income situation has changed, you may qualify for a traditional loan. (Again, that could earn you a lower rate.)

You should consider any rate quote that you receive in the mail as a teaser. Any "refinance quote or offer" is ***not official*** until you have completed a loan application, your credit has been pulled, and you have received a "Loan Estimate" that details the rate and terms being offered, the expenses associated with your new loan ***and*** you have instructed the lender to "lock in" the offer presented.

While a refinance seems simple on the surface, it is a serious financial transaction that deserves thoughtful consideration. Call Jaxzann at **303-990-2992**. She has over 35 years of experience and can help you evaluate your options.