REAL ESTATE NEWS

Analyze refinancing on more than just interest rates

With interest rates at their lowest level in more than a decade, there has been a surge in refinancing.

In reality, refinancing a mortgage is simply taking out a new mortgage. You will encounter many of the same procedures — and the same types of costs — the second time around.

Refinancing can be worthwhile, but it does not make good financial sense for everyone, according to Ellen Lapidus of the Mortgage Bankers Association.

A general rule of thumb is that refinancing becomes worth your while if the current interest rate on your mortgage is at least 2 percentage points higher than the prevailing market rate. This figure is generally accepted as the safe margin when balancing the costs of refinancing a mortgage against the savings.

There are other considerations such as how long you plan to stay in the house. Most industry sources say that it takes at least three years to realize fully the savings from a lower interest rate, given the costs of refinancing.

REFINANCING can be a good idea for homeowners who:

- Want to get out of a high interest rate loan to take advantage of lower rates. This is a good idea only if you intend to stay in the house long enough to make the additional fees worthwhile.
- Have an adjustable rate mortgage (ARM) and want a fixed-rate loan to have the certainty of knowing exactly what the mortgage payment will be for the life of the loan.
- Want to convert to an ARM with a lower interest rate or more protective features (such as a better rate and payment caps) than the ARM you have.
- Want to build up equity more quickly by converting to a loan with a shorter term.
- Want to draw on the equity built up in the house to get cash for a major purchase or for children's education.

If you decide that refinancing is not worth the costs, ask your lender whether you may be able to obtain all or some of the new terms you want by agreeing to a modification of your existing loan instead of a refinancing.

In deciding whether to refinance an ARM you should consider these questions:

- Is the next interest rate adjustment on your existing loan likely to increase your monthly payments substantially? Will the new interest rate be two or three percentage points higher than the prevailing rates being offered for either fixed-rate loans or other ARMs?

- If the current mortgage sets a cap on your monthly payments, are those payments large enough to pay off your loan by the end of the original term? Will refinancing a new ARM or a fixed-rate loan enable you to pay your loan in full by the end of the term?

THE FEES DESCRIBED here are the charges that you most likely will encounter in a refinancing.

- Application fees. This charge *imposed by your lender covers* the initial costs of processing your loan request and checking your credit report.

- Title search and title insurance. This covers the cost of examining the public record to confirm ownership of the real estate. It also covers the cost of a policy, usually issued by a title insurance company, that insures the policy holder for a specific amount for any loss caused by discrepancies in the title to the property.

Be sure to ask the company carrying the present policy if it can reissue your policy at a re-issue rate. You could save up to 70 percent of what it would cost you for a new policy.

- Loan origination fees and discount points. The origination fee is charged for the lender's work in evaluating and preparing your mortgage loan. Discount points are prepaid finance charges imposed by the lender at closing to increase the lender's yield beyond the stated interest rate on the mortgage note. *One point equals 1 percent* of the loan amount. For example, one point on a $75,000 loan would be $750. In some cases, the points you pay can be financed by adding them to the loan amount. The total number of points a lender charges will depend on market conditions and the interest rate to be charged.

- Appraisal fee. This fee pays for an appraisal that is a supportable and defensible estimate or opinion of the value of the property.

- Prepayment penalty. A prepayment penalty on your present mortgage could be the greatest deterrent to refinancing. The practice of charging money for an early pay-off of the existing mortgage loan varies by state, type of lender and type of loan. Prepayment penalties are forbidden on various loans including loans from federally chartered credit unions, FHA and VA loans, an some other home-purchase loans. The mortgage documents for your existing loan will state if there is a penalty for prepayment. In some loans, you may be charged interest for the full month in which you pre*pay your loan.*

- Miscellaneous. Depending on the type of loan you have and other factors, another major expense you might face is the fee for a VA loan guarantee, FHA mortgage insurance or private mortgage insurance. There are a few other closing costs in addition to these.

A homeowner should plan on paying an average of 3-6 percent of the outstanding principal in refinancing costs, plus any prepayment penalties and the cost of paying off any second mortgages that may exist.

One way of saving on some of these costs is to check first with the lender who holds your current mortgage. The lender may be willing to waive some of them, especially if the work relating to the mortgage closing is stilll current. This could include the fees for the title search, surveys and inspections.

If you are planning to refinance, seek out mortgage lenders, real estate agents, attorneys and other advisers to give you information about lending practices, mortgage instru*ments and your own interests* before you commit to any specific loan.

Homeowner dishes up controversy; board unwilling to act

Our association has a deed restriction precluding the installation of satellite dishes. The township ordinance also prohibits them. Recently a homeowner erected a satellite dish that is buried behind some vegetation and refuses to do anything about it. The board of directors of the homeowners association is concerned but is wondering what to do. Your reaction, please.

If you are confident that the township prohibits this activity, I would notify the township, requesting on behalf of the homeowner association that it enforce the ordinance. I would also write a letter to the homeowner in behalf of the board of directors advising the homeowner of the violation and warning the homeowner of the various remedies that the association has should it wish to resort to enforcement procedures.

Hopefully, the township will resolve your problem, but if it does not, you should be prepared to resort to legal redress against the defaulting homeowner.

I read your recent column concerning co-ops in which I understood you to say that co-ops do not have the same responsibilities given to the board of directors as condominium boards. Would the co-op board be obligated to present a yearly budget and to have open board of directors' meetings? What is the difference between their responsibilities?

I believe that you may have misunderstood the response that was provided regarding the difference between co-ops and condos. The column answer differentiated between the concept of owning a co-op as opposed to a condo and the potential problems regarding the financing of co-ops as opposed to condos. But the responsibilities of the directors of co-ops and condos are similar as would be the case with the responsibilities of the directors of any other corporation — that is, to operate in a fiduciary capacity in behalf of its members and to manage and maintain the association in a businesslike and proper fashion in accordance with the enabling documents of the condo or co-op.