How Can I Tell Whether It Is a Good Time to Refinance My Mortgage?

It may be worthwhile to refinance if you can lower your monthly payment by a significant margin and you plan to stay in your home long enough to recoup the cost of refinancing.

To Refinance or Not

Consider this example: If you had a $200,000, 30-year mortgage with an 8% interest rate, your monthly payment would be $1,468. If you refinanced at 6%, your new monthly payment would be $1,199, a savings of $269 per month. Assuming your new closing costs amounted to $2,000, it would take eight months to break even. ($269 x 8 = $2,152) If you planned to stay in your home for at least eight more months, then a refinancing would be appropriate under these conditions. If you planned to sell the house before then, you might not want to bother refinancing.

All Mortgages Are Not Created Equal

When considering whether to refinance, don't choose a mortgage based only on its stated annual percentage rate (APR), because there are many other important variables to consider.

- The term of the mortgage Shorter terms can result in significantly reduced interest costs over time. On the other hand, they may require higher monthly payments.
- The variability of the interest rate An adjustable rate may be lower initially when compared with a fixed rate, but adjustable rates are likely to move upward over time. With a fixed rate, there is greater certainty regarding your monthly payment over the life of the mortgage.
- Points Also known as origination fees, points are paid to a lender or mortgage broker at closing. One point usually equals one percent of the loan's value. Mortgages described as "no-cost" or "zero points" do not carry this upfront cost but may charge a higher interest rate, which may add to the long-term cost of the loan.
- Other mortgage-related fees When you refinance, you may pay a mortgage broker fee (assuming you do not go directly to a bank or other lender), a title insurance premium, a commitment fee, attorney or settlement fees, an appraisal fee, and other costs that add up quickly.

The amount of money you may save and how long you plan to live in your home are key variables that influence whether you should refinance your mortgage.

How Much Could You Save by Refinancing?

Rate After Refinancing	New Monthly Payment	Monthly Savings	Months to Break Even
7.50%	$1,398	$69	29
7.00%	$1,331	$137	15
6.50%	$1,264	$204	10
6.00%	$1,199	$269	8
5.50%	$1,136	$332	7
5.00%	$1,074	$394	6

A homeowner with a 30-year, $200,000 mortgage charging 8% interest would pay $1,468 each month. This table illustrates the potential monthly savings and the various break-even periods (assuming $2,000 in closing costs) that would result from refinancing at different rates.

Source: ChartSource, Standard & Poor's. Months to break even rounded up to the next highest month. Does not consider the impact of taxes. (CS0000215)

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