Smude & Associates Planning Points

News and Information To Keep You Informed -June 2011

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In This Issue

Quote of the Month

"Friendship is like money, easier made than kept."

-Samuel Butler

REFINANCING 101

You've no doubt seen the shiny new interest rates available today, or maybe you've overheard a neighbor bragging about scoring a fantastic deal. If you're thinking about refinancing the mortgage on your home, it's time to sit down and really think about your goals. People refinance to save money, but that can pan out in several ways. Remember, a refinance doesn't pay off debt – it just restructures it on different terms. Some homeowners refinance for a lower monthly payment, but if that extends the loan another 30 years, they may well pay more over the life of the loan. Other homeowners refinance to reduce interest expense or pay off a loan more quickly. Your goal may be to consolidate the debt of a first and second mortgage.

Two Types Of Refinancing Available

With standard (or traditional or simple) refinancing, the new terms apply to the remaining balance on the original mortgage. With "cash-out" refinancing, the amount borrowed is greater than the amount remaining on the previous mortgage. The difference is taken out in cash and can be used to fulfill other financial obligations.

When To Refinance Your Mortgage

First and foremost, figure out how much it's going to cost you to refinance. According to Bankrate's 2010 survey, the national average for closing costs on a $200,000 loan was $3,118. Get a good faith estimate accurate to your specific conditions and crunch the numbers. Think about refinancing after you've built up equity on your home and especially if your credit has improved. A low rate can minimize total interest expense over time and changes in structure can remove onerous conditions for interest-only mortgages, piggyback mortgages or rapidly increasing adjustable rates. The 2-2-2 rule of thumb says it's smart to refinance if you've been in your home two years, plan to stay in your home at least two more, and find new interest rate 2% lower than your old one. While this is a good rule to follow, consider also how many months it will take to recoup closing costs. It may not take long to break even.

When Refinancing Isn't Smart

1) If you don't plan to be in the house much longer, stay in your current mortgage. You won't break even on costs before you leave the home.
2) If you are underwater on your mortgage, you're unlikely to find a lender who can offer good terms.
3) If you face a prepayment penalty, waiting the typical two years is often a smarter choice.
4) If you only have a few years left on the current loan, taking out a new loan only puts you deeper into debt just when you are about to become debt free.

Refinancing makes sense for the right reasons and at the right time. If you're not sure if it's the right time for you, give us a call, we'll help you calculate the ins and outs of a possible refinance.

Citations:
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4 EXPENSES YOU SHOULD ALWAYS NEGOTIATE

Whatever you call it – haggling, bargaining, negotiating – you have a picture in your mind more likely to involve a rummage sale than a mortgage broker. Many of us have been conditioned to accept a set price, but paying sticker price almost always means paying too much.

In today's economy, consumers are opening up to a new concept of negotiation, and professionals are meeting them halfway. A recent Consumer Reports survey found that more than 90 percent of those who haggled over things from electronics to interest rates scored a lower price. With a good attitude and the right approach, negotiation can save you serious money on four important expenses.

1. Medical Bills
Costs for medical procedures and tests are not set in stone. There is enormous variance in cost from one provider to another, and health care companies pass costs onto patients while providers bill inflated rates aimed at insurance companies. Start by finding the average price at www.healthcarebluebook.com. Next, call the billing administrator at your hospital, doctor's office, dentist, or lab. You can ask for a discount for paying in cash or for paying within 7 days. Explain that you're paying out-of-pocket and you may save as much as 50%.

2. Home Improvements
Get at least three estimates before beginning a home improvement project. However, going with a lower estimate isn't the only way to save money. When business is slow, contractors are more willing to negotiate. A 2010 survey reported that 80% of contractors were willing to lower their prices – sometimes by 10 or 20 percent – in order to secure a job.

3. Credit Cards
Credit card companies compete fiercely for customers, and you can use that competition to your advantage. If you are charged a late payment fee but normally pay on time, call and ask to have it waived. Asking to have annual fees waived or reduced is another good option, as is simply calling the 1-800 number on the back of your card to ask for a lower rate, especially if you have good credit and a good payment history. In a study by the U.S. Public Interest Research Group, more than half of consumers who asked for lower rates got them, with their average APR dropping from 16 percent to 10 percent.

4. Mortgage and Refinancing Rates
You already know to get several estimates in writing from different mortgage brokers or lenders at banks and credit unions, but you should take it one step further by saying to the one you want to work with, "Here's the best deal I can get. Can you beat it?"

According to the FTC, negotiating mortgage fees can result in thousands of dollars of savings. For the lowest costs, ask for discounts on any upfront fees, including application, documentation, and origination fees. "Everything is negotiable," says Stuart Diamond, author of Getting More: How to Negotiate in the Real World. "All you have to do is ask."

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Q&A
Should you have any questions concerning anything in this month's installment or to learn about upcoming events please contact our office.