

Refinancing and Determining The Best Loan Amount for You

The Question: Should I "Roll in all the Costs" or Pay Cash at Closing on My Refinance?

There are 3 "Cost" Components in a Refinance Transaction:

- 1. Details of Refinance – Paying off your current loan (A):**
 - **Current Mortgage Balance** – this is the balance of your current loan we will be paying off.
 - **Per Diem Interest on Current Loan** – This is the interest that has accrued since your last mortgage payment. The last payment you made on your mortgage included interest from the previous month (Example: a January 1 mortgage payment is interest accumulated in December – that means – you do not pay interest until it has accumulated). The per diem interest charge here is for interest for this month – and combined with 901 above – should equal 1 mortgage payment.

- 2. Closing Costs (B) – These are your costs to refinance:**
 - I usually suggest clients "Roll these in." You can choose to pay if you want.

- 3. Prepaid Escrow and Adjustments (C):**
 - 1001 – 1004 – These are "Escrows" and are not "costs to refinance." If you are currently escrowing taxes and insurance in your mortgage payment now, you will get the current balance of your escrow account returned to you by your current lender within 3 weeks of your refinance closing. Check your mortgage statement and see your current balance.
 - 901 – Per Diem Interest – this is interest that will accrue on your loan from the refinance closing date to the end of the month. We do this so we can get your mortgage payment "due date" to be on the end of the month.

Suggestions:

These are all based on the assumption that your home has enough equity to allow for your desired loan amount.

Remember - Any amounts you finance at closing are essentially "financed" over the term of the loan – 30 or 15 years. You can make additional principal payments at any time – however, your monthly mortgage payment will NOT be adjusted. Paying extra principal payments lowers the term of your loan.

- **I usually suggest borrowers roll the "Closing Costs" (B) into "Paying Off the Loan" (A).** Our partner – Monarch Title allows you to write a personal check for up to \$5,000. Most attorneys allow personal checks to \$1,000. Rolling in closing costs (A) keeps the cost you may owe at closing lower - possibly keeping the amount you owe below \$5000 - saving the hassle of going to the bank for a cashiers check. If you choose to "roll in" only closing costs (A) – you will essentially, be paying your mortgage payment at closing and funding your escrows. Within 1 month – essentially the cash balances in your bank will be equal to what they are now – i.e. – you will not owe a mortgage payment that was due and you will have your escrow account balance returned.
- **Do you need cash to pay off other debts? Do you currently finance debt at higher interest rates than the mortgage rate? – If so, roll in A, B, and C –** freeing up more cash for your home improvement or debt consolidation. You could owe no money at closing and have no mortgage payments for 1-2 months and get your escrow account balance on your current loan returned.
- **Do you need cash for home remodeling or for other expenditures – such as college expenses? You can tell me how much you need and I can adjust the loan balance to suit your needs.**

After reading this, if you still have questions – feel free to e-mail or call me.

I am striving to make your refinance transaction as easy as possible.

Thanks for all your referrals!

