Planning To Refinance Your Home Loan? Here's What You Can Expect To Pay

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Refinancing your home means getting a new loan to replace your current mortgage, which could lower your monthly payment or your interest rate.

However, just like when you first bought your home, there are various costs associated when you refinance your mortgage. Here's what you need to know if you're considering whether refinancing your home loan is worth the cost.

What is the Purpose of Refinancing?

There are four major reasons why you might want to refinance your home loan:

- **Lower Your Interest Rate.** If rates have dropped since you first purchased your home (or last refinanced your mortgage) you may be able to save hundreds of dollars on your monthly payment and thousands of dollars in interest over the life of your loan by refinancing to a lower rate.

- **Change Your Loan Term.** A refinance can allow you to make your loan's term longer or shorter, depending on your needs. You might want to refinance to a longer term if you're having trouble keeping up with your payments, or a shorter term if you want to pay off your loan faster and save money on interest.

- **Take Cash Out.** A cash-out refinance allows you to take money out of the equity you've built in your home. You take on a loan that's worth more than what you currently owe with a cash-out refinance, and your lender gives you cash in return. Many homeowners who take cash-out refinances use that cash to pay off other debts like car loans, student loans, or credit cards, but you can use the money for whatever you like.

How Much Does Refinancing a Mortgage Cost?

The closing costs of a refinance can be different for different homeowners. Closing costs vary because of factors such as property location, loan type, and loan amount; however, the average cost of a refinance is typically 2-3% of loan amount.

Refinancing closing costs aren't just one fee — there are several expenses that make up closing costs. Much of the money you pay at closing covers your lender's fees and any services that were used in the process of underwriting and closing on your loan.

Here are some of the closing costs you may need to pay when you refinance your mortgage.

- **Taxes.** You may owe property taxes when you close on your refinance. Costs vary based on where you live and your home's value. Typically, six months of property taxes are due at closing.

• **Application Fee.** Applying for another mortgage will cost you. This fee typically isn't refundable, and varies based on what lender you choose.

• **Loan Origination Fee.** You'll pay an origination fee to your lender to prepare your loan. The average origination fee is 0.5 – 1% of the loan amount and covers the underwriting and other administrative costs. Sometimes, your application fee will be included in this cost.

• **Appraisal Fee.** If your home hasn't been appraised recently, you may need to pay for an appraisal. This process involves a licensed appraiser, who will assess your home and determine its fair market value.

• **Title Search and Insurance.** Lenders search for your home's title to make sure you're the owner, and check for any liens you have on the home. If there's a mistake on the title that would jeopardize their investment, the title insurance provides protection to the lender.

• **Survey Fee.** If your home hasn't had a survey recently, your lender could require one. This essentially verifies that your home and all of its structures are where the title says they are.

• **Attorney Review and Closing Fee.** The company or lawyer that conducted your home's closing will need to be paid for their work, and this will become part of your closing expenses.

• **Prepayment Penalty.** Some lenders charge prepayment penalties on loans paid off before expected. Since a mortgage refinance will essentially pay off your old loan before your expected payoff date, your old lender could charge a prepayment penalty. Not all loans have a prepayment penalty, however. Ask your lender if your current mortgage has a prepayment penalty, and if so, how much it is.

Do You Have To Pay All These Costs Upfront?

It is possible to refinance a mortgage without paying closing costs. However, it is important to understand this does not mean your lender is paying the closing costs for you.

Instead, your lender will offer to pay your closing costs upfront in exchange for charging you a higher interest rate. The closing costs then become part of your monthly interest payment and you'll pay them over the life of the loan. This can be a great option for you if interest rates have fallen substantially since your first purchased your home – you could potentially refinance with no out-of-pocket costs AND save money on your monthly payment.

Lenders may also offer to have your closing costs rolled into your loan instead of increasing your interest rate. With these refinances, you don't pay the fees in cash at closing – you just add them to your loan amount. For example, if you are refinancing a $600,000 mortgage that has $10,000 in closing costs, your new mortgage amount will be $610,000. The closing costs are paid off over time as part of your monthly principal and interest payment.

The Bottom Line

With interest rates at multi-year highs and home values still appreciating, homebuyers are having trouble deciding whether they should purchase a home now and take advantage of equity gains or wait until rates drop.

If you've spoken to a mortgage or real estate professional recently, you've probably heard one of them spout a version of the phrase *"Marry the Home, Date the Rate!"*, which is just a catchy way of advising you to buy NOW, because prices are only going to go higher, and refinance when rates drop.

Want to learn more? Please schedule a call today!

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