READY TO REFI?

A SIMPLE GUIDE TO REFINANCING YOUR HOME

BANK OF LITTLE ROCK MORTGAGE

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INTRODUCTION

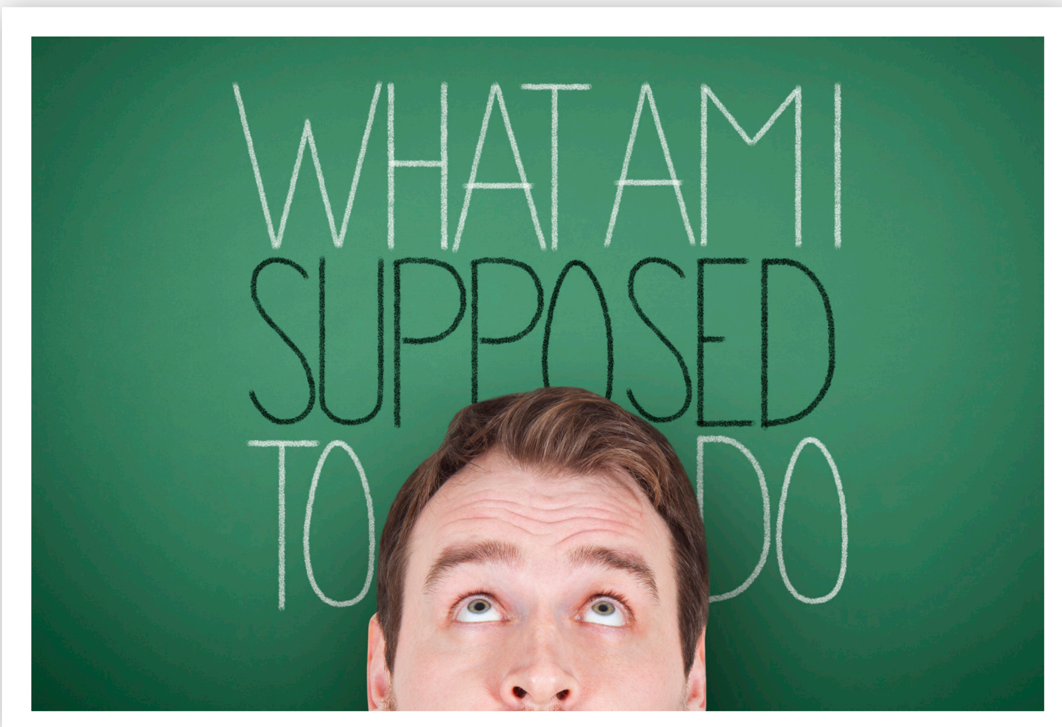
You've had your home loan for a few years, but the rate you are currently paying is much higher than the near-historic low rates you see online. You may want to lower your monthly payment, or perhaps your monthly payments are fine, but you'll be paying the loan off for the next 25 years. Maybe it has little to do with the amount or length of your mortgage, but you would like to cash in on the home equity you've been building to help pay off other debts. There is a financial tool to help you. It's called refinancing.

Refinancing, sometimes called "refi," requires much of the same process as buying your initial home loan, including shopping around for a lender, deciding on a loan program and going through an approval process. It's not without some effort, but it's easier than getting your original home loan — for one, you don't have to move!

WHAT IS REFINANCING?

In simple terms, refinancing means replacing your original mortgage with a new one. When you go through the refinancing process, your first mortgage is paid off and you receive a new loan with a different interest rate and payment term. Refinancing allows you to take advantage of lower interest rates to modify your loan to work for you.

Refinancing also provides the option of changing mortgage companies. You don't have to refinance with the company who originally loaned you the money to purchase your home. When you switch mortgage companies, the new company will pay off the old home loan in full.



REASONS FOR REFINANCING

By refinancing, you can do more than lower your interest rate or change mortgage companies. There are several reasons for refinancing that can benefit your family and finances:

LOWER YOUR MONTHLY PAYMENT.

Mortgage rates are constantly moving up or down. One misconception is that interest rates need to be lower than your current mortgage by two percentage points to consider refinancing. The reason for this is the closing costs associated with a refinance. It is important on any refinance to make sure that any costs associated with refinancing are quickly covered by the savings garnered by refinancing. In today's market, it is often possible to refinance without closing costs. Because of this, even a 1% reduction in rates can provide substantial savings.

GET THE MORTGAGE PAID SOONER AND BUILD EQUITY.

Equity in real estate terms is the difference between your home's market value and the amount owed. In order to build equity, you have to shave off the debt. Refinancing can help you get rid of that debt faster by switching to a shorter payment term, such as from a 30-year fixed rate to a 20- or 15-year fixed rate. Depending on your current interest rate, you may be required to pay more each month, but this can mean getting the mortgage paid off a decade or more sooner.

CONVERT TO A DIFFERENT LOAN PROGRAM.

While there are many types of loan programs, interest rates are either fixed or variable. Fixed rate means you pay the same amount every month as long as you have the loan; an adjustable rate, means you pay a varying interest rate, so your payment could go up or down. Often times, borrowers refinance to get out of adjustable rates when the rates begin increasing. By switching to a fixed-rate loan, your monthly payment stabilizes and you know exactly how much you will be paying for the life of the loan.

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REASONS FOR REFINANCING (cont.)

CAPITALIZE ON IMPROVED CREDIT.

As you are making mortgage payments consistently on time, you may realize your credit score has improved significantly. Your mortgage company might offer you a better rate based on your improved credit score, thereby lowering your payments.

GET RID OF THE PMI.

PMI stands for Private Mortgage Insurance and is usually an extra fee borrowers must pay if they made less than 20 percent on a down payment. The PMI protects the lenders from borrowers who are considered a higher loan default risk due to the lower down payment. While the PMI usually does not last the entire mortgage term, it can be canceled early through the refinancing process, as long as the lender deems you are no longer a loan default risk.

CASH OUT A PORTION OF THE HOME'S EQUITY.

As you pay off your mortgage, your equity will increase. By going with a "cash-out refinance," you will refinance for a new mortgage amount that is greater than the existing mortgage amount. You could receive a lump sum that is a percentage of your house's equity that can be used for whatever you need, such as to pay off credit card debt, buy a new car or repair the house.

REFINANCING RISKS

There are a few risks to refinancing that borrowers should take into account as they review their finances and research their options. While many borrowers refinance to lower their monthly house payments, there are a few refinancing options that will increase your monthly payments and add on some extra fees. Here is what you need to consider before refinancing:

REMEMBER THE FEES.

Mortgage lenders provide refinancing as a service that costs money. You have to factor in all of the costs to find out if the assumed savings of refinancing outweigh the expense. Below are the usual costs and fees you can expect to pay.

- Application fee
- Appraisal fee
- Title insurance and closing fees
- Loan origination fee

Many lenders offer a refinancing without closing costs option. It is important to discuss the option of a "no cost" refinance to see if that option provides a greater savings based on your individual situation.

CAVING IN UNDER CASHING OUT.

Even when you receive cash from your home equity, you still have to pay back that loan eventually. A sure way to lose your house is to continually refinance to a higher loan amount than what you currently have in order to receive more short-term money. While a cash-out refinance can be very helpful when the rates are lower than what you currently pay, overdoing it can lead to situations like foreclosure.

WHEN SHOULD I REFINANCE?

You're interested in refinancing your mortgage, but you're not sure if now is the right time. How do you decide when the time is right? And how often should you refinance? The main question to ask is, "How long do I plan on living in this house?" If you're planning on staying in the house for two years at the most, it may not be worth the time and money to refinance. It also depends on the type of refinancing you're considering. If you're looking at living in the house for more than 20 years, shortening your mortgage payment term may be a good idea. If you're only expecting to live there about five more years, then refinancing to a longer term with a lower payment may be the right decision.

You should consider more factors than whether the mortgage rates are low when you look at refinancing. You should be aware of your finances and credit score, too. Has your credit improved significantly over the course of your current mortgage? Have you been making payments consistently and on time? Do you have the resources to easily pay closing costs and refinance fees? These are all questions you need to ask yourself and get answers to by reviewing your finances before you make the decision on whether to refinance.

HOW LONG AFTER YOU'VE RECEIVED A MORTGAGE ARE YOU ABLE TO REFINANCE?

Most banks and lenders require borrowers to maintain their original mortgage for six months to a year. Others may ask that you have a certain amount of equity built up in your home. Again, it varies from lender to lender. There is no limit to how many times you can refinance, but embarking on a consistent pattern of refinancing over short amounts of time is not advisable.

When deciding on whether or not to refinance, borrowers also need to consider how many months of lower payments it will take to recoup the closing costs of the new mortgage.

GOING THROUGH THE REFINANCING PROCESS

You've decided you are financially stable and the mortgage rates are ripe for the picking, so you have the made the choice to refinance. Now what?

To start the refinancing process, you first need to figure out what kind of new loan you'll be obtaining. Once that is decided, you need to shop around for your mortgage lender. Whether you choose to go with your current lender or a new mortgage lender, you will have to provide all new financial information, as well as obtain an updated credit score. Because all lenders will need to get basically the same information, shopping around is a good idea to ensure you still get the best deal available. One thing to consider is getting a "savings analysis." A lender should be able to give you a good idea about savings you would garner by refinancing before even applying for the loan.

Once you've selected your lender and have an idea of what kind of loan you'd like to apply for, here is how you go through the refinance process:

1. Complete a loan application with the mortgage company.
2. After reviewing your application, the lender will present you with different mortgage loan offers.
3. Choose which offer works best for you and submit documentation back to the lender to begin processing the loan.
4. Within the next three days, the lender will provide you with a Loan Estimate, which sets out all of the costs of the refinance (including closing costs, if any). Be sure this is the type of loan you want and can afford. Also

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be sure to “lock in” your rate. Rates may change from the time between applying and closing, which means you may have a higher rate than what you originally intended by the time you sign the final documents. By locking in a rate, you and the lender agree that the rate stays the same through the whole process, regardless of fluctuation in rates.

5. The lender contacts an appraisal company to appraise your house.

6. A closing date and location to complete the refinance process is set.

7. Review the Loan Estimate and Closing Disclosure before going into closing, so that you know exactly what you’ll be expected to pay at closing.

8. During the closing, you’ll need to provide any outstanding information and sign loan papers. You’ll need to have a certified or cashier’s check to pay closing costs, unless closing costs are included in the new mortgage loan amount. Closing usually takes about an hour. If you are going through a cash-out refinance, you’ll receive your check for the equity three business days after closing.

9. After the closing and all of the necessary documents have been signed, if you are refinancing your primary residence, you have three business days to decide whether you want to continue with the loan. This is called a “right of rescission.” You have the ability to cancel the transaction anytime in those three business days. After those three days, the old mortgage is paid off by the proceeds from the new loan.

RESEARCH, RESEARCH, RESEARCH!

When it comes to handling your finances responsibly, the key factor to always include is research. Research your finances. Research your financial history. Research your loan options. Research your mortgage lender. Research and add up all of the costs. Read the fine print on every document. Consult with more experienced homeowners and highly qualified mortgage lenders.

WHEN IT COMES TO HANDLING YOUR FINANCES, KNOWLEDGE IS POWER.

Make sure you carefully review your finances and conduct your research before you choose a new loan program. Read and think through every sentence carefully before you sign a document. Compare the costs, if any, to the potential savings. Make sure you have read all of the documentation prior to the closing. It's hard to read through several small-print documents with several pairs of eyes on you while trying to clearly understand every detail. It is wise to walk into closing already knowing what is included in those documents. You'll be all the more confident about signing your name on the dotted line to receive your refinanced home loan.

READY TO REFI?

You do not have to be stuck with an existing mortgage. There are several ways to adjust your mortgage for it to better fit your finances and your lifestyle. Refinancing is not a quick-and-easy fix by any means, but it is a thorough process that helps you select the best new mortgage plan. Sure you have to deal with more paperwork and closing costs, but the result could help you save thousands of dollars by switching to a better interest rate. If you are interested in refinancing, start reviewing your finances, looking at current mortgage rates and contacting mortgage lenders right away.

CONTACT US

Bank of Little Rock Mortgage has locations across the country.
If you would like to get started on your new home loan or refinance,
contact the lender closest to you!

To see a complete list of our branches and get in touch with our lenders,
visit **www.blrmortgage.com/find-a-lender/**

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