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## Thinking about refinancing? Be sure to do your homework

So you're thinking about refinancing your home. And who can blame you? The Federal Reserve has slashed interest rates five times since September, and Wall Street analysts predict another cut when the Fed meets this Tuesday. Meanwhile, it seems like every other advertisement is touting now as the best time to refinance. But is it? The short answer: It all depends what you plan to do with your home or property.

The most obvious benefit to refinancing is securing a lower interest rate – a lower monthly payment on your mortgage. Other potential benefits include consolidating your existing debt, drawing equity from your property, getting out of "exotic" or unsuitable lending, or converting from an adjustable rate to a fixed rate mortgage. However, each of these benefits presents various pros and cons depending on the individual borrower's circumstances.

If you plan to sell your property in the near future, refinancing more than likely does not make sense. Remember, there is a process involved with refinancing. Among other things, it requires a check on your credit, a title search and an appraisal of your property – all of which are required and come with fees. You will want



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to own the property long enough to recover these costs of refinancing. Here's how you can calculate whether refinancing is worth it. Add the refinancing costs – the bank fees + title fees + recording fees, etc. – and divide that figure by the savings per month as a result of the lower interest rate. This will indicate the number of months you would need to own your property to actually enjoy the benefits of refinancing. There are several online calculators or tools to help you do this – to find that "break even point."

A few of these can be found on [money.cnn.com](http://money.cnn.com) or [smartmoney.com](http://smartmoney.com). And, of course, be sure to speak with your mortgage broker, bank representative or other financial advisor for a full and accurate picture of your options. They can discuss with you the 'pros and cons' I alluded to earlier.

While refinancing lessens your monthly payment, you also will likely be adding years onto the total life of your mortgage. For example, if you

are in year five of a 30-year mortgage and you decide to refinance, you reset the mortgage back to year one. Again, a qualified lending professional or advisor can help you determine the exact loan product that is right for you because there are loans available with a less than 30-year lifespan.

There are also protections designed to benefit you, the borrower. Many of them stem from the Truth in Lending Act. One powerful benefit that this Act provides is something known as the "right of rescission."

For those refinancing, this gives you the ability to rescind (cancel) your loan within three business days of closing, so long as the loan was for your principal residence (whether a home, condominium, house boat or mobile home). It does not apply to investment properties, nor does it apply if you are refinancing with the same lender you used for your existing mortgage without borrowing additional funds.

Very few loans are rescinded, but at least you have the additional protection, and additional time, to review what happened at the closing, understand the numbers involved, and understand the loan product you have ultimately selected. Should you

decide to exercise your right to rescind the loan, just follow specific instructions provided to you at closing. Make sure the closing attorney explains the process to you and that you have been provided with not only a copy of all the loan documents, but several copies giving you notice of your right to rescind. (By law, the lender is mandated to provide you with at least two copies of the right to rescind).

To learn more about the Truth-in-Lending Act and its benefits, visit the Federal Deposit Insurance Corporation's website ([fdic.gov](http://fdic.gov)) or that of the U.S. Department of Housing and Urban Development ([hud.gov](http://hud.gov)) for other consumer protections. If you do not qualify under the protections of the right of rescission and you are refinancing, you should speak with a qualified lending professional and consult an attorney. It goes without saying, but always read the fine print on all documents associated with your loan to ensure you understand the product you are getting. An informed borrower is the most important part of the refinancing equation.

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