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Financial Planning News, Refinancing Mortgage

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Refinancing: The Trend and How to Begin

[Kathryn Elizabeth Tuggle](#)

FOXBusiness

With **refinancing rates** at a 37-year low, it's no wonder thousands of **Americans** are rushing to **refinance their homes**. **Mortgage refinancing applications** are up 25.6% this month alone, and are at their highest volume since 2003, according to the Mortgage Banker's Association.

"People are concerned about what the future holds, and are looking for any way to decrease their monthly expenses," said Dale Vermillion, author of Navigating the Mortgage Maze: The Simple Truth About Financing Your Home. "People have seen that with lower interest rates, they can save hundreds each month, or save in the long term by shortening their mortgage."

Although rates have bounced back slightly from their record January low of 4.96% due to the Fed's move to purchase \$500 billion worth of mortgage-based securities to increase bank lending, homeowners can still refinance at a very low rate structure in comparison to what's normal for the market, according to Carolyn Warren, author of Mortgage Rip-Offs and Money Savers: An Industry Insider Explains How to Save Thousands on Your Mortgage or Refinance.

The average interest rate for a **30-year fixed mortgage rate** stands at 5.19%, while 15-year fixed rate mortgages currently stand at 5%, according to the MBA. However, the rates vary depending on the type of loan you take, and the product that you take.

Adjustable rate mortgages are typically priced a **bit lower** than **fixed rate mortgages**, but recently have been priced at or above the level of a fixed-rate due to the push towards fixed financing and fear of unpredictable costs. Shorter-term loans carry lower rates because lenders like the fact that there is a shorter amount of time for the borrower to default on the loan.

Although it seems that everyone is refinancing these days, the process is far from easy. More than 50% of individuals applying for a mortgage will be turned down due to a number of factors, according to Warren. What do you need to ensure your application pushes through?



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Having good credit is one of the largest contributing factors towards getting a low interest rate on a mortgage, Vermillion said.

"If you are taking a loan out with a low credit score and debts in your name, you will pay a higher rate than people with perfect credit and low debt ratios, plain and simple," Vermillion said.

If your credit score is below 620, interest rates on a mortgage will be much higher than if your credit score were in the 700 and above range, he said. Obtaining a copy of your credit report will indicate if there are any credit issues that need to be cleared, including previously closed credit cards and the possibility of identity theft.

Another item to have in hand before the refinancing process begins is proof of income. Unlike several years ago, when borrowers could obtain "no income verification loans," lenders are now verifying how much a person makes annually before providing them with a loan. People interested in refinancing should gather documents from their employer that prove their salary figure. Fortunately for most Americans, lenders are not as concerned with borrowers making a lot of money as they are concerned with verifying a stable income, Vermillion said.

Another factor borrowers should consider before refinancing is "debt ratio," which is the percentage of gross annual income that will go towards monthly mortgage payments. Some lenders allow debt ratios on a mortgage of 50% of a borrower's income. This means that for someone making \$4,000 gross salary per month, their mortgage payment would be set at \$2,000. However, many lenders today set the bar at 30% to 40% of gross income, which is smarter for all parties involved, Vermillion said.

"You do not want a loan where people are putting 50% of their income into their homes," he said. "The cost of living is just so expensive these days, I wouldn't exceed 25%."

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However, Vermillion said the most common mistake for borrowers to avoid is refinancing back to a 30 year mortgage if several years worth of equity has already been paid into a home on a 30 year mortgage. Many companies now offer 20 or 25 year mortgages that can be a great alternative for many families, according to Warren.

"Losing those years and that equity is really a mistake. You want to benefit not only from a lower rate, but from a lesser term as well," Vermillion said. "Even if you plan on being in your home for 45 years, you still want to get out of debt. None of us know what's going to happen, and by getting a shorter-term loan, you get faster reduction in the principal debt."

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