In touch...

A newsletter for clients of the Wilson Financial Group 205-868-9297

AUG./SEPT. 2016

Current Interest Rates and Planning Moves

With the recent chaos in Europe (Brexit), I have received many phone calls about concerns from clients about the World's economy. While the Stock Market now seems unconcerned with this historic event, the mortgage rate environment has never been better.

1) **If you currently have a 30 year fixed rate above 4.25%, there are significant opportunities to save by refinancing.** Most people will find that they can refinance to 20 years and keep their payment the same. You may want to even consider a 15 year rate which is below 3%.

2) **If you currently have a 30 year fixed rate above 4% and are paying PMI,** most people will find that they can refinance and their house has appreciated enough to get rid of PMI. This allows going to 20 years and keeping your payment the same.

3) **If you currently have a 30 year fixed rate above 4.5% and only plan to remain in your current home for a few years,** then there are attractive savings opportunities with an ARM. Current rates are around 3.5% and fixed for 5 years.

4) **If you have other debts to consolidate, planning a renovation, or currently have an equity line,** then you should consider refinancing and combining loans to avoid the variable rate increase in the future. Remember it was only a few years ago that equity lines were at 9.5%.

5) **If you currently have a 15 year fixed rate above 3.75%,** there are still opportunities to save by refinancing. Most people will find that they can refinance to 10 years and keep their payment the same.

I appreciate everyone who has called and allowed us to assist them over the last few years. I especially appreciate those who have recommended us to friends. However, many people seem to be confused about how to decipher rates and closing costs from different lenders.

For years now, most of you know that I have been a strong advocate of higher interest rates and lower closing fees. Many people still do not understand that a lower interest rate with higher fees is not a good deal. Enclosed is some information on refinancing and how to analyze the savings. I hope this helps.

Knowing when to refinance depends on how long you are going to live in the house, the interest savings, and closing costs. The focus is not always on a lower payment and interest rate, but the savings over the period of time you will remain in the home, versus the cost to close the new loan. **In fact, the lowest rate often is the worst choice because it has the highest closing costs.**

Which Loan is Better?	0% Origination Fee 0% Discount Points No Junk Fees *"The Lowest Total Cost Mortgage"*	1% Origination Fee Typical Bank Loan
Loan Amount	$150,000	$150,000
Interest Rate	7.25%	7.00%
Principal & Interest Payments	$1,049	$1,023
Cost of Origination Fee	$0	$1,500 + Other Junk Fees
Interest Paid Over 72 Months	$63,159	$60,890
Total Cost = (Interest Paid + Fees)	$63,159 - 0 $63,159	$60,890 - 1,500 $62,390
Net Savings Before Tax Deductions	$0 No origination fee is charged. If you invest the origination fee (that was not charge and earn 5%, it could grow to $2,111 in 72 months	$769 Actually less of a savings when you consider the tax deduction received on the interest paid

OBSERVATIONS

Most mortgage companies and banks charge origination fees. Typically their rates will be 1/8-1/4 lower than a loan without origination fees or discount points. While your payment is lower, the closing costs are higher. ***Over 7 years, the lower rate only saved you $769. Why are you giving up the use of $1,500 to save $769?***

Why not use that money to reduce the mortgage, invest in a mutual fund, or pay off a credit card? The key is to design the mortgage to account for the period of time you plan to remain in the home. Unless you know you will remain in the home for a long period of time, you should never pay an origination fee or discount points.

In touch... WFG
A newsletter for clients of the Wilson Financial Group

Wilson Financial Group
314 LaPrado Circle
Birmingham, AL 35209
205-868-9297