Give Your Clients Tools for a Smart Refinance

By Sandi Weaver, CPA, CFP, CFA

In the midst of the Federal Reserve Bank's unprecedented drop in short-term interest rates, have you and your clients been watching interest rates on mortgages? The St. Louis Fed offers FRED, an informative app to track economic data. FRED says the 30-year fixed rate mortgage average is at a low not seen in more than 10 years.

If your clients are staying put in their home for a few years and if their interest rate is above 3.75 percent, refinancing may be beneficial for them. They may be able to snare a lower monthly payment, freeing-up needed cashflow.

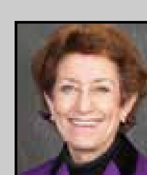
The first step is checking interest rates from three banks or mortgage brokers. Some institutions post their rates on mortgages. Some information is available on sites such as *Bankrate.com* or *NerdWallet.com,* but rates listed there may not be obtainable in all situations. Many institutions require that you provide some basic personal information in order to obtain a quote. Your client will want to examine the three lowest rates. Those are likely to be similar, but you might be surprised at the variation among lenders.

Secondly, determine if it makes sense to refinance. To see if this is worthwhile, NerdWallet's refinance calculator requires the bare minimum of data: the original amount on the current mortgage, the year your client took it out, the interest rate, and term. You will need the new mortgage's term (such as time left on the old loan), interest rate, and an estimate for closing costs. It graphically shows your client the breakeven point to recoup the closing costs, and it calculates the total savings. (The monthly savings is the difference in the mortgage payment—principal and interest only.) The industry's rule of thumb is to breakeven in two years or less.

Having passed that test, the next step is to run a deeper analysis. The AICPA has a website of helpful financial tools at *360FinancialLiteracy.org/Calculators*. Recommend your client interface with the lenders to get more data: estimates for the loan origination rate, any points to be paid, and a projection of other closing costs. That data is entered on the site's refinance breakeven tool. The first breakeven measure shows when closing costs are recouped. Are your clients confident they will be in the home that long? The second breakeven statistic shows when the savings on interest expense and PMI covers the upfront closing costs. The report results are robust and comprehensive.

Paying points may trip up your clients. AICPA's financial tools website also has a mortgage points calculator where they can easily enter the information: loan balance, term, interest rate (assuming the client pays points), and how much the points cost. The analysis is sound, showing the difference in payments in 10 years and the loan balance at that point in time. But you may prefer to calculate the breakeven on when the cost of the points is recouped: what you pay in points divided by the difference in monthly payment divided by 12. Do the clients think they will be in the home that long?

Many financial planners help clients evaluate refinancing opportunities. You can help your clients do the same, using FRED, NerdWallet, and the AICPA's financial tools website. Other resources are commonly available (although some can be quite tedious to reach the same figures). Successful clients are often those who use their professional advisers to deliver good analyses or depend on you to guide them through it.



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