More Equity Required for Mortgage Refinancing

The past month has seen a significant rise in mortgage refinancing applications. Interest rates for a 30 year mortgage are at an almost 40 year low. Some consumers are taking a chance to see if the interest rates will be lowered more in the coming months, as others are not taking a risk and applying for mortgage refinancing now. Regardless of whether you apply for mortgage refinancing under the current rates or take a gamble, make sure you take a hard look at your finances to determine if you even qualify for a new mortgage. Lenders are requiring much more of their borrowers now.
The loose lending practices of the past decade have added fuel to the fire of the housing bust. Lenders have adopted stricter lending practices since the meltdown in the credit market. To qualify for mortgage refinancing, consumers must have more equity in their homes now. Credit scores of 700 or higher are becoming the norm for approval. This all translates to fewer approvals for mortgage refinancing, in spite of the significant rise in number of applicants.
Deciding if mortgage refinancing with the current low rates makes sense for you can be confusing. The most important thing to note is if your home is now valued at less than you owe on your mortgage. Some homeowners in areas hardest hit by plummeting values are in this situation. You will not be approved for mortgage refinancing if your current mortgage is higher than the value of your home. In fact, many lenders offering mortgage refinancing now make 20 percent equity requisite. If you pass the home equity test, move on to calculating the cost and benefits of mortgage refinancing.
The first step is to calculate how much you would save each month by comparing your original mortgage interest rate to the current rate. Then work out what the total cost of the mortgage refinancing will be. Much like you did when you obtained your original mortgage, you will incur costs for documentation work, appraisers, attorney hours and bank fees. Next, try to estimate how long you anticipate owning the property. Take the total cost of the mortgage refinancing and divide by the estimated monthly savings. This will tell you how many months it will take for you to recoup the costs of the mortgage refinancing (know as break even.) If it is more than the duration you plan to own the property, then mortgage refinancing is not advisable. If your break even point is less than the time you expect to own the property, then it is wise to consider mortgage refinancing.

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About the Author

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