



# Should I Refinance My Mortgage?

This article is written by Don Wolthius and provided by [Ronald Blue Trust](#).



In recent weeks, more and more clients have asked me if they should refinance their mortgages, which is the process of obtaining a new mortgage to replace an existing mortgage. Refinancing can make sense when a new mortgage can be obtained with more favorable terms than the existing mortgage.

The rates offered by mortgage lenders are closely tied to the prevailing 10-year Treasury rate, which has fallen due to investor concerns about COVID-19 and its effects on the economy. As a result, the interest rates offered by mortgage lenders have also dropped significantly and remain near all-time lows. Depending on credit scores, lender fees and points, and other factors, 30-year fixed-rate mortgages (FRMs) have recently been offered at rates around 3.0%, while 15-year FRMs can be obtained at rates around 2.5%. This creates a unique opportunity for many homeowners who have an existing mortgage at a higher interest rate.

When shopping for a new mortgage, up-front costs (*closing costs*) are fees paid to either the lender (*typically referred to as an origination fee and/or points*) or paid to third parties (*government fees, closing attorney, title insurance, etc.*). A refinance is likely not in your best interest if you do not expect to be in your house long enough for the lower monthly interest payments to help you recoup these costs.

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Some common reasons to consider a refinance include:

### **1. Reduce the total amount of interest to be paid.**

This can be accomplished by obtaining a lower interest rate or by paying off the new loan over a shorter term than the remainder of the existing loan or by some combination of the two.

Advantages of a shorter term include:

- Relatively lower interest rates are offered for shorter-term loans.
- Accelerated principal payment and shorter time to pay off the loan.

Disadvantages of a shorter term include:

- Higher required monthly payment, thus less flexibility with monthly cash flow.

### **2. Reduce the required monthly payment.**

This can be accomplished by obtaining a lower interest rate or by paying off the new loan over a longer term than the existing loan or by some combination of the two.

Advantages of a longer term include:

- Lower required monthly payment, thus more flexibility with monthly cash flow.
- Option to pay extra principal with each loan payment to reduce the effective term.

Disadvantages of a longer term include:

- Relatively higher interest rates are offered for longer-term loans.
- Slower principal payment and longer time needed to pay off the loan.

When selecting a mortgage term, always compare it to the remaining term on your existing mortgage. For instance, if you obtained a 30-year mortgage in 2010 and made the minimum required payment for the last 10 years, you would now have a remaining term of 20 years. Refinancing to a new 30-year mortgage would add 10 years to the payoff schedule, while refinancing to a new 15-year mortgage would reduce the payoff schedule by five years. While some lenders do offer 20-year or 10-year mortgages, the rates offered for these terms are often not significantly lower than the 30-year or 15-year options. That said, there are instances where a 20-year or 10-year mortgage refinance can make sense. Adjustable-rate mortgages (ARMs) are available as well but are generally not advantageous at this time due to the record low rates being offered on FRMs.

The following are some guidelines for obtaining and comparing pricing and terms:

1. Since rates fluctuate daily, try to obtain multiple mortgage proposals in a short period of time—ideally, all on the same day. Keep in mind that multiple credit checks from mortgage lenders within a 45-day window are recorded as a single inquiry with regard to impact on your credit.
2. Compare closing costs for loans with the same interest rate or compare interest rates for loans with similar closing costs. Be sure the closing costs include all the same categories of costs (*lender fees, government fees and taxes, attorney fees, title fees, escrow account funding, etc.*) or adjust for any differences.
3. Possible lenders to consider for a mortgage refinance include:
  - An independent mortgage broker (*intermediary that offers loans from multiple lenders*); a good choice for more personal service and guidance and a “one stop shop.”
  - A credit union or bank with whom you have an existing relationship.



- Another financial institution or direct lender who can often provide very competitive pricing; common sources to identify direct lenders include: WWW.BANKRATE.COM, (HTTP://WWW.BANKRATE.COM/), WWW.LENDINGTREE.COM, (HTTP://WWW.LENDINGTREE.COM/), and WWW.HSH.COM (HTTP://WWW.HSH.COM).

As you carefully consider your financial goals and objectives, as well as any pros and cons to a refinanced mortgage, we encourage you to also prayerfully consider your next steps. Here are some passages of Scripture to reflect on as you evaluate refinancing a mortgage or taking on any other debt:

*"The rich rules over the poor, and the borrower becomes the lender's slave" (Proverbs 22:7).*

*"Come now, you who say, 'Today or tomorrow we will go to such and such a city, and spend a year there and engage in business and make a profit.' Yet you do not know what your life will be like tomorrow. You are just a vapor that appears for a little while and then vanishes away. Instead, you ought to say, 'If the Lord wills, we will live and also do this or that'" (James 4:13–15).*

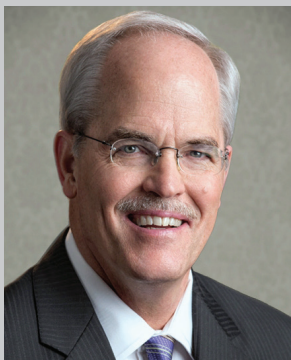
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At Ronald Blue Trust, our advisors apply biblical wisdom and technical expertise to help clients make wise financial decisions. If you are considering refinancing and would like to know more about how we can help support your goals through a financial plan, please contact a Ronald Blue Trust advisor by calling 800.987.2987 or emailing [BLOG@RONBLUE.COM](mailto:BLOG@RONBLUE.COM) (MAIL TO: [BLOG@RONBLUE.COM](mailto:BLOG@RONBLUE.COM)).

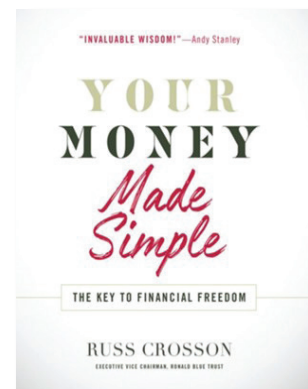
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Russ Crosson is executive vice president and chief mission officer of Ronald Blue Trust® and executive vice chairman of the board of directors for Thrivent Trust Company. Russ serves as chief advocate for the heart and soul of the organization and works to ensure the mission of the company is fulfilled with integrity in every area of the organization, with a focus on making sure the company's mission is passed down and inculcated into future generations.



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