SHOULD I REFINANCE MY MORTGAGE?

Refinancing your mortgage means paying off an existing loan and replacing it with a new loan. It can be done to reduce your interest rate or to shorten your mortgage term, the length of time it takes for a loan to be paid off. So, how do you know if you should refinance the loan you have with North Dakota Housing Finance Agency (NDHFA)?

HOW MUCH MONEY WILL I SAVE?

If you bought a home in recent years, your interest rate is probably pretty low. To determine how much you might save, use a mortgage calculator like the [Freddie Mac calculator] linked to NDHFA's website to make some rough calculations.

If you purchased a home in 2016 for $150,000 and you didn't have a down payment, after covering the loan's closing costs, typically 3% of a loan's principal balance, you would owe $152,250. If your interest rate is 4% with a 30-year term, your monthly payment (principal and interest alone) is $727. After five years of payments, your outstanding loan balance would be $137,706.

As with your original mortgage, refinancing has a cost because it requires an appraisal, title search and application fees. Assuming your closing costs are again 3% and you roll the costs into the loan again, your $137,706 balance will become $141,837. If your new interest rate is 3% with a 30-year term, your payment is now $598, saving you $129 per month.

If you can afford to put more towards the monthly payment, you may choose to shorten your mortgage term, paying the loan off sooner. Typically, loans with shorter terms also have lower interest rates. If you apply for and receive a loan with a 2.25% interest rate with a 15-year term, your monthly payment would increase to $929 per month, $202 more than you were paying monthly, but the loan would be paid off sooner and you would pay less in interest over the life of the loan.

IS IT THE RIGHT TIME TO REFINANCE?

Deciding to refinance is a personal decision that should be based on your financial means and future plans. Many of NDHFA's first-time buyers consider their first house to be a "starter home." If you plan to sell your home to purchase a newer or larger home, refinancing may cost you more than it saves.

If you move one year after refinancing to a lower rate, you would save $1,548 ($129 x 12 months) on your mortgage payments. However, since you paid $4,131 in closing costs when you refinanced, you would lose money, the closing costs minus the savings ($4,131-$1,548= $2,583), is not enough to justify the cost of refinancing.

To determine at what point you recoup the cost of refinancing, divide the closing costs by the monthly savings. In this situation, you need to live in your home for almost three years ($4,131 ÷ $129 = 32 months).

WHAT SHOULD I DO NEXT?

NDHFA can't refinance your loan. The agency operates in the secondary market, meaning we don't originate loans; we purchase loans originated by the private sector after the loans are closed. If you decide to refinance, you will need to contact a mortgage lender. Be sure to get quotes from several lenders starting with your bank or credit union, as the fees charged for originating mortgages vary widely.

If you have additional questions that aren't covered in this document, you are welcome to contact NDHFA's loan servicing department at (800) 292-8621 or hfaservicing@nd.gov.

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