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Reevaluating Your Mortgage in the New Year

We are only a month into the New Year and it is not too late to reevaluate your home mortgage and make some resolutions about managing it this year. Your home is probably one of your biggest investments and it is important to periodically reassess the way you are financing it. There are many possible things you can do to make your mortgage more productive for your situation. Consider the following suggestions.

First, take a look at the current mortgage market conditions. Find out what interest rates are averaging on your type of home loan. If the going rates are much higher than what you are currently paying on your mortgage, congratulate yourself! If rates have dropped well below your own loan’s rate, it may be time to consider a refinance. Of course, just because rates are lower does not mean you should immediately jump into a new loan. You must consider the long-term savings in interest as well as the upfront, out-of-pocket costs of closing costs and other fees. If you have not been in your current loan for very long, you may even be faced with paying a pre-payment penalty in order to refinance.

A good way to determine if a refinance loan is a good idea for your situation is to determine how much the new loan will cost you in upfront charges, and also figure out how much you will save each month on your mortgage payment with the lower rate. Another important factor to consider is how long you plan to stay in your current home. Usually a refinance is only a good idea if you are going to remain in your home for several years to come. Make sure you talk with your trusted financial advisor or mortgage professional to determine all the details of a refinance. If a refinance does make sense for your situation, it may end up saving you thousands of dollars in interest.

There may be another great reason to refinance besides lower rates. If you currently have an adjustable rate mortgage (ARM), and your interest rate and payments will be resetting this year, you should probably consider refinancing into a fixed rate loan. Analysts say most ARM borrowers will face an interest rate increase range of 3% to 3.5% and that translates into doubled payments! If you are not financially prepared to make those kinds of payments considering switching into a 30-year fixed rate mortgage as interest rates currently remain historically low, around 6.25%. Remember though, that this point may be moot if you are planning to move this year or in the next few years and will be starting a new mortgage soon anyway.

Next, take a look at your private mortgage insurance situation. Many homebuyers, especially first-timers, do not have enough money to make a 20% down payment at the outset of their mortgage loans. To cover the resulting risk, lenders charge these borrowers private mortgage insurance (PMI.) If you are such a borrower, you know that you will have to continue to pay this insurance until your own approximately 20% equity in your home, either through paying down the mortgage principal or through the appreciation of your home, or a combination of the two. Depending on how long you have been in your home, 2007 may be the year when you can cancel that PMI payment. Lenders are legally required in most states to notify you when you attain the set amount of equity, but it is in your best interest to keep track of your progress as well so that you can have the insurance policy cancelled as soon as possible. Once you can stop paying PMI, you will be saving yourself hundreds of dollars a year!

Taking a few hours to rethink your home situation and your current mortgage could end up saving you hundreds or thousands of dollars this year. Don't let any more time pass you by before you re-examine the ways you can save on your home loan this year.

