

Should you consider financing closing costs, escrow reserves, or other cash needed at closing?

If you've built up some equity in your home, when you refinance, you may be able to "cash out" some of that equity to pay off credit cards or other revolving debt, improve your home, help pay for college, or anything else you can think of. The same is true of refinancing costs: If you have enough equity in your home, you may be able to roll some of the cash due at closing into your loan.

Some of the "cash needed to close" as it's sometimes called includes settlement costs and fees, prepaid interest, escrow reserves, state or local government charges, or even extra funds needed to pay off your existing mortgage. Some or all of those costs can sometimes be financed as part of your new mortgage loan.

But you have to be careful. It's not always the case that you can borrow up to 100 percent of your home's value. Many loan programs are based on what's called a "loan-to-value" ratio. You may qualify for a very advantageous refinanced mortgage if you borrow no more than 80 percent of your home's value, but may not qualify for the same terms if you borrow 90 percent. We can help you qualify for refinance loan programs for as much as 95 percent of your home's value in most cases, but the lower your loan-to-value ratio (that is, the less you borrow), the better terms you'll generally qualify for.

The bottom line is that in many cases you can reduce your up-front costs for refinancing your mortgage in exchange for higher monthly payments for the life of the loan. But whether, and to what extent, you can do this depends on the value of your home and the amount of your new mortgage, and what options you decide are best for you.

If you've had your current mortgage for a few years, chances are you've built up enough equity to finance cash needed to close and still have a smaller loan balance than your original -- and a balance that will qualify you for a favorable mortgage program tied to your loan-to-value ratio. We can help you decide!

Many people find that it's advantageous to pay the cash needed at closing from checking, savings or money market accounts or from other assets. This is because the less you borrow on the new refinanced loan, the lower your monthly payment will be. But we'll work with you to see if there is an advantageous refinancing program for you based on your ability and willingness to pay closing costs and other fees and the amount you wish to borrow.

We want to make the best loan for you, work for you!

