

# Affluent

10 July 2006

Affluent-Lifestyle

## Refi Madness

By Neal Frankle, CFP®

**A**m I the only one in the Conejo Valley who's sick of all the mortgage refinance commercials on the radio? Come on! It seems like every time I get in my car and tune in, somebody's yammering about how it's the perfect time to refinance.

With interest rates going up, up and away, I've noticed the radio ads are targeting people with variable rates, exhorting them to convert to fixed rate loans. But is it really right for everyone who has a variable rate? Not really. So how do you know if it's time for you to convert into a fixed rate loan?

*To seriously address this question, you need more information (and to make a few assumptions about the future).*

First, you need to know how variable your loan is. Most variable rate loans have a limit as to how high the rate can be raised in each adjustment period. Of course, you'll need to call your existing mortgage company for that information.

Next you need to project how long you'll live in your current residence. Most people stay in one place for seven to eight years. If you've already lived in your home for four years, you should figure on staying another four years - and, therefore, being subject

to another four adjustments to your variable rate loan. If you are the pessimistic type, assume your rate will adjust up to the maximum allowable rate each period. Let's also assume your current rate is five percent. If the maximum adjustment is one percent per year and you will live in the house another four years, you should figure that your rate will increase one percent a year for the next four years, topping out at nine percent by the time you move. Calculate the yearly payments based on these assumptions. If you need help with this, your mortgage company or financial advisor should be able to calculate it for you.

Create a spreadsheet showing what the payments will look like over the next four years and compute the total assuming you maintain the existing variable loan. **This is option A.**

**On to option B.** Find out what the interest rate is on a fixed rate mortgage based on your current credit score. If your credit score has changed for better or worse between the time you first obtained the variable loan and now, it may impact the rate considerably. Also determine what the cost will be to obtain this new loan. Often the cost can exceed two percent of the loan balance. But keep in mind that you may be able to cut many of those costs by using your existing loan company to make the

switch. So keep them on your list of potential mortgage providers.

Add the cost of obtaining this new loan to the payments you'll make over the next four years, and you'll have the total cost of option B - refinancing to a fixed rate.

Now comes the really "complicated" part: Select the option that costs less. I think you can handle that on your own; don't you?

Voila! You spent an hour on the phone and 15 minutes with a calculator, and you've become a mortgage maven! You can save yourself a pile of money and heartache by avoiding making the wrong mortgage decision. And, best of all, when those annoying commercials start blaring, you can switch the station to classical with total peace of mind.

*Neal Frankle is the author of Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, do the same for their clients. For more information, or to receive a free report on how to find the best funds, please email Neal at [Neal@WealthResourcesGroup.com](mailto:Neal@WealthResourcesGroup.com) or visit the website [www.WealthResourcesGroup.com](http://www.WealthResourcesGroup.com).*

The Authority On Lifestyle