



September 17, 2010

Reasons Not to Refinance a Mortgage

By MARYANN HAGGERTY

LEW ALTFEST knows how clients will react when he tells them they shouldn't refinance their mortgages.

"Their faces move from smiley to glum," because they thought that by refinancing, they would be "outfoxing someone," said Mr. Altfest, the principal adviser at Altfest Personal Wealth Management in Manhattan. Cutting your mortgage rate seems like finding cash in the street.

"But if you have rational reasons," he said, "they thank you."

With mortgage rates at historical lows, almost all the loans being written these days are refinancings — 80.5 percent of applications in the week ended Sept. 10, according to the Mortgage Bankers Association.

But not everyone should refinance a mortgage, Mr. Altfest and other experts point out. "It depends on what you have, it depends on your time frame, and obviously it depends on what you can save and whether you can qualify," said Timothy G. Parker, the president of Hudson Capital Management in Ridgewood, N.J.

As with most financial matters, this decision involves a bit of math. At the very least, homeowners will need to determine their closing costs and monthly savings. Divide closing costs by savings; that tells you how many months it will take to break even. If you plan to stay put that long, a refinance might work. People with high loan balances may find the numbers favor refinancing, but those who don't owe much may determine that closing costs overshadow savings.

Those who have lost jobs or whose homes have lost value may not qualify for a favorable loan. Jorie Johnson, a planner at Financial Futures in Manasquan, N.J., has a client whose home value has plunged to \$675,000 from \$750,000 since it was purchased five years ago. The client's 5.125 percent seven-year adjustable mortgage has a balance of \$570,000. The client could get a lower rate now, but

with most lenders willing to lend no more than 80 percent of a home's appraised value, the biggest loan available would be \$540,000. "So this client would have to have a free \$30,000 to pay down the principal to complete the refi, which adds to the cost of refinancing considerably," she said.

Here are some other situations in which a borrower should think hard before refinancing:

¶When taxes mean you aren't saving as much as you thought. Most mortgage interest is tax deductible; a lot of closing costs aren't. Especially in New York, the mortgage recording tax makes costs high. You can't deduct this on your federal returns. If you save \$10,000 a year in interest and pay \$10,000 in closing costs, it will take you more than a year to break even, said Gary Schatsky of Objectiveadvice.com, a personal finance company in New York.

¶When cutting costs means extending the term of a loan too far. Refinancers frequently take out 30-year loans. Particularly if you have been paying for years, stretching payments means you're improving monthly cash flow, but increasing lifetime interest costs substantially. It's simple to check this, said Robert B. Walsh, a partner at Lighthouse Financial Advisors in Red Bank, N.J. There's an [Excel mortgage calculator](#) to test what-ifs, as well as Web calculators. If total payments soar, "you're going to end up paying more over the life of the loan, so your house is going to cost you more," he said. "You're using your house as a checkbook, and that's what got people in trouble before."

¶When taking cash is too easy. For people with equity in their homes, "it's very tempting to say, 'I'll take an extra \$40,000 or \$50,000 out,'" said Ray Mignone, the president of Ray Mignone & Company, a financial adviser in New York. "They'll pretty much blow that."

If you've refinanced before and used cash to pay down credit cards, then run balances back up, "you swear you'll never do it again," said Mr. Altfest of Altfest Personal Wealth Management. "But your wife knows you will, and your financial adviser knows you will."