laurel road

Top 10 Terms to Know Before Refinancing Your Mortgage

Break-even calculation
Helps you determine how long it will take to break even on the costs of refinancing your mortgage. Divide your refinance costs by the amount your lower mortgage payment will save you. The result will be the number of months until you break even.

Cash-out refinancing
When the new mortgage is for a larger amount than the current loan, and you get the difference in cash. This type of refinancing can help a homeowner take advantage of equity built up in a home.

Debt-to-income (DTI) ratio
Total recurring monthly debt – including credit cards, car payments, student loans, home equity lines of credit (HELOCs), other real estate owned, and alimony/child support – divided by gross (before taxes) monthly income. Expressed as a percentage, it is used in determining how much home you qualify for.

Loan-to-value (LTV) ratio
The mortgage amount divided by the appraised value of a property. Expressed as a percentage, it's used in determining your interest rate.

Loan estimate
A document provided by your mortgage lender that breaks down all the loan details, including the terms, estimated monthly payment, interest rate, annual percentage rate (APR), and total interest percentage (TIP) which tells you how much interest you'll pay over the life of the loan, and closing costs.

Mortgage refinance
When you refinance, you pay off your current mortgage, which allows a new loan to be created with new terms. In some cases, the lender is required to calculate and document the net tangible benefit (NTB) to demonstrate financial benefit of the refinance to the borrower. With a refinance, the borrower may choose to work with a different lender from the original mortgage.

Points (discount points)
Fees paid directly to the lender at closing in exchange for a permanently reduced interest rate for the life of the loan. Points are essentially pre-paid interest, and it's sometimes referred to as "buying down the rate." One point is usually equivalent to one percent of the mortgage amount.

Prepayment penalty
Some loans have a fee that kicks in if you pay off your mortgage within a certain amount of time. A "prepay" is usually 1-3% of the total loan amount if the loan is paid off within the timeframe specified in your original loan.

Property equity
The current market value of your house minus the amount you still owe on the mortgage. When calculating your equity for a mortgage refinance, you need to use the current value of your home, not the price you paid for it. You can estimate the current value using online real estate sites.

Second mortgage
A loan secured by the property but is taken out separately from – and without affecting the payment and terms of – the first mortgage. A second mortgage allows the homeowner to access the cash equity in their home, which is often used for expenses such as car or college loans, or home improvements. The second loan is subordinate to the first mortgage, so as a result, it can carry a higher interest rate.

For more information and helpful tips for mortgage refinancing, visit

LaurelRoad.com/Mortgage
(877) 801-4686