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IS THIS A GOOD TIME TO REFINANCE?

BRENTWOOD, Tenn. – Interest rates often fall during tough economic times. That’s good news for homeowners who would like to shave a few dollars off their monthly mortgage payments. That’s because when interest rates fall, it’s time to consider refinancing your mortgage loan. If you can find a loan with a lower interest rate, your regular payments will drop. However, refinancing is only a good idea under the right circumstances. The Tennessee Society of CPAs offers some advice on deciding whether the time is right.

KNOW HOW MUCH IT WILL COST

When you refinance, you take out a new, cheaper loan and use the proceeds to pay off your old mortgage. Whenever you borrow money, there will be costs involved. These might include points - or a percentage of the loan amount - that you will have to pay the bank or other mortgage holder, as well as attorney costs and other fees. Do your homework to find out what the fees will be. Next, figure out how much you will save each month by refinancing. Given the loan fees and what you might save, does the refinancing still seem like a good deal?

CONSIDER YOUR LONG-TERM PLANS

One of the ways to determine whether the refinancing is appealing is to consider how long you plan to stay in your current home. The refinancing must not only pay for itself, but also provide some savings to you in order to be worthwhile. For example, say the closing costs on your loan will amount to \$2,400, and the new mortgage will lower your monthly costs by \$200 a month. That means it will be one year - or 12 months x \$200 - before the loan pays for itself. After that point, you will begin to benefit from your monthly savings.

BE CAUTIOUS ABOUT EXTENDING THE LOAN

In some cases, you can lower your mortgage costs by extending the term of your loan, but you may end up with a short-term gain and a long-term loss. It's true that if you have 20 years left to pay on a \$200,000 mortgage, you can lower your monthly payments by taking out a new 30-year loan, even if your interest rate stays the same. However, while you will have more money in your pocket now, you will actually lose money over time. That's because you will be paying interest over a longer term, which pushes up the total cost of the loan to you.

CHECK OUT 360 DEGREES OF FINANCIAL LITERACY

If you're uncertain about how much a refinanced mortgage will cost you, turn to the 360 Degrees of Financial Literacy Web site by going to www.360financialliteracy.org, then clicking on "Home Ownership." Created by the CPA profession to help consumers understand a variety of financial issues, the site includes handy mortgage calculators that you can use to consider different rates and loan terms.

About Money Management

Money Management is a weekly column on personal finance prepared and distributed by the Tennessee Society of Certified Public Accountants (TSCPA) as a part of its financial literacy initiative.

Members of TSCPA are CPAs residing and practicing primarily in Tennessee in all areas of public accounting, education, government, business and industry. TSCPA offers a speakers bureau for many types of business and educational engagements. For details, visit www.tscpa.com. TSCPA is headquartered in Brentwood, Tenn.

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