Should I Refinance or Sell My Home? - Platinum Service Realty | Cincinnati Ohio Real Estate Specialists | Selling Homes. Serving People.

As interest rates remain at historical lows and homes are selling like hotcakes at or above list prices, the dilemma to refinance or sell can be tough for many home owners. How do I know which is the better choice? Whether it's the lure of saving more per month or the dollar signs you imagine from a home sale, take some time to get the numbers crunched and weigh the pros and cons of each path. Let's look at each route to help you examine your own situation.

The Basics of Refinancing

Keep in mind that when you refinance, you still need to be able to qualify for a new loan. Refinancing is basically paying off your existing home loan with an entirely new one. And qualifying is easier for some than others. Negative changes to your credit rating, a downturn in income, or significant debt can hurt the prospect of refinancing at a lower rate, or even qualifying at all. The best place to start, regardless of your financial report card, is to get multiple quotes from different lenders (at least three). Compare 15-year and 30-year fixed rate loans. Beware of variable rate loans that could cost you less in the short term but more in the long run.

There will be closing costs and fees associated with a refinance just as there are with a new home loan. Make sure you know how many months in mortgage payments it will take before you see the savings after accounting for the cost of the new loan. If your new mortgage savings per month takes years to cover what you spent in upfront fees, you might need to stay in your home another three to five years or more to see the benefit of a refinance.

Signs to Refinance

The desire to build more equity in your home at a faster rate is one good reason to refinance. That typically means going from a 30-year to a 15-year fixed rate mortgage. Also, if you currently have a mortgage rate that is significantly higher than current rates, it makes sense to refinance for significant savings.

Signs to Sell

If your family needs more space or you feel it's time to upgrade to a home with more amenities, these are obvious reasons to choose selling over refinancing. Maybe you want to relocate to a different neighborhood, downsize, or pocket cash from your home sale. On the financial side of any of these choices, be sure to calculate how much equity you have in the house and what amount you'll profit after Realtor, closing, and moving fees.

Bottom Line

If you're on the fence about which route to take, examine both the financial and emotional aspects of your options. Use lender resources to help determine your exact savings over time and determine if the refinancing process is truly cost effective. Use a Realtor to determine how much your current home is worth and what kind of homes you can afford on your budget. How tied to your home and community are you? What's the availability of homes in neighborhoods you'd like to live in? Does it make more sense to get a new home loan and move now while rates are still low than gamble on what it will be like in three to five years? Asking yourself all the appropriate questions will help you determine the right choice for your family.

Real Estate Term of the Week

Refinance: Trading in an old mortgage for a new one. When you refinance your mortgage, your bank or lender pays off your old mortgage with the new one. Refinancing is sought to make favorable changes to an interest rate, payment schedule, and/or other terms outlined in a mortgage contract. If approved, the borrower gets a new contract that takes the place of the original agreement.

Refinancing Your Mortgage vs. Selling Your Home in 2022

With inflation at historic highs this year, many people are changing their spending habits and may also find themselves looking for creative ways to reduce typically-fixed expenses like housing. As a homeowner feeling financial pressure, you might consider accessing your hard-earned equity by refinancing your mortgage or selling your home. The choice may be a difficult one, however, given recent interest rate hikes and historically-high housing costs.

Let's discuss reasons homeowners may opt to refinance, how to compare loan types, and the importance of getting expert advice for your specific situation. But first, we'll take a look at how the 2022 economic climate and housing market may affect your decision.

How might rising interest rates, inflation, and still-high home prices affect your decision?

At the end of July 2022, the Federal Reserve raised interest rates for the fourth time since the start of the year. Meanwhile, Freddie Mac reports the average interest rate on a 30-year fixed-rate mortgage to be 5.3% — up 2.5% from the same time the year before — and Forbes reports the average 30-year fixed refinance rate to be even higher at about 5.42%.

What do these numbers mean for you if you'd like to refinance your mortgage? Depending on your current interest rate, they could mean that your monthly payment would go up, or that you end up paying significantly more interest over the life of your loan. While these rates are not high compared with the 80s, 90s, and even 2000s, if you purchased your home after 2008 (but before 2022), there's a good chance you've enjoyed a lower rate.

So, what if you sell instead? Unfortunately, those rising interest rates — in combination with inflation and very high home prices — also seem to be cooling the market. For June of 2022, the National Association of Realtors® (NAR) reports that sales of existing homes were down 5.4% from the previous month and down 14.2% from one year before — even while median home prices and inventory continue rising. That makes the fifth consecutive month that sales have been down, but the 124th month of year-over-year price increases, according to the NAR.

In other words, although your home's current market value may be higher than ever — boosting that equity you want to liquidate — it may not be as easy to sell as it would have been a mere six months or one year ago.

To get expert insight into today's changing market, we spoke with Rick Ruiz, a top agent in Las Vegas, Nevada, who sells properties more than 48% quicker than the average agent in that area. Ruiz says that for most people who decide they need to sell to access equity, a tough market won't stop them from listing. However, right now a seller will have their work cut out for them: "You either need to be the nicest house on the block or the least expensive. And in certain occasions, if you're in a sector, market, or community that has a lot of homes for sale, you may need to be both."

Fortunately, if you decide to sell, we can connect you with a top agent who is well-equipped to navigate a challenging market. It takes just two minutes to find an agent tailored to your needs.

Now that we've glimpsed the unique challenges of the 2022 market, it's time to learn more about your options.

Refinancing basics: What's the advantage of getting a new mortgage deal?

When you refinance your loan, you're paying off your existing mortgage and replacing it with a new loan with different terms and interest rates. So, what are some possible reasons to refinance?

Reason #1 – Lowering your monthly payment

The first way a refinance may lower your payment is with a lower interest rate than your original mortgage. If rates have gone down since you purchased your home, or your credit or income is significantly improved, you probably qualify for a more favorable rate.

The second way is by extending the loan term. If your original mortgage was a 30-year loan, for example, and 10 years in you refinance to another 30-year loan, you'll be paying on that house for a total of 40 years. However, the balance remaining after 10 years of paying will now be spread across 30 more years, significantly reducing your monthly payments.

While that may seem tempting, Ruiz strongly recommends that if you must refinance, try to not extend the length of your loan, because it's like starting from scratch again.

Reason #2 – Saving money in the long-run

Procuring a lower interest rate also reduces the total amount of interest you'll pay over the life of a loan. And did you know it's possible to refinance and shorten the life of your loan? This means you pay interest over a shorter period, reducing the total interest on the loan significantly.

Reason #3 – Cashing out equity in your home

If you're looking to access equity, a cash-out refinance will let you do just that. With this loan, you're actually borrowing more than what you still owe on the original mortgage—essentially converting your equity into available funds to see as you see fit.

Some consider this a risky financial move. As with any option, weigh the pros and cons of a cash-out refinance carefully.

Reason #4 – Changing your loan type

Interest rates aren't everything.

The type of loan you get is just as important. Every time you get a new mortgage or refinance, your lender will be looking at your existing financial data, including your current income, credit history, and outstanding debt to determine interest rates and loan types for which you qualify.

So, if you're making more money, carrying less debt, and have a better credit score now than when you purchased your home, you may be able to strike a better deal, replacing your 30-year variable rate mortgage for a 15-year fixed mortgage, for example.

However, if you're making less, carrying more debt, or having credit trouble, your chances for getting a good deal on a new loan are slim. For instance, refinancing could require you to give up your slightly higher fixed-rate mortgage for an only slightly lower variable-rate one. Even though the new rate is technically lower, you may wind up paying more in the long run.

Low equity? Freddie Mac and Fannie Mae borrowers may still be able to refinance

If you're afraid you have too little equity in your home to benefit from a refinance, you may not necessarily be out of luck. If your original mortgage is with Freddie Mac or Fannie Mae, you may be able to apply for a high loan-to-value refinance option or an enhanced relief refinance.

Mortgage evaluation 101: How to examine current rates and compare loans

If you're considering refinancing or selling due to financial need, the place to start is by comparing your existing mortgage rate with current ones. This will require some homework to understand the impact a different interest rate or new loan type will have on your finances over time. Here's a helpful resource for understanding and comparing loan types.

However, this is easier said than done. While you have only one existing rate on your mortgage, there are dozens of current mortgage rates to compare it with.

Every mortgage lender determines their own rates, which is why experts recommend that you get quotes from multiple lenders and brokers. Not only that, but those rates vary within each institution depending on the loan type.

For example, the same lender may charge 4.375% interest on a 15-year, fixed-rate mortgage for a new purchase home, while charging 5.125% interest on a 30-year fixed-rate mortgage.

And when you refinance instead of buying new, those rates are often slightly higher for each loan type, depending on how you structure the loan.

With dozens of loan types and mortgage lenders to choose from, you have plenty of opportunities to find the one that best helps you financially. However, keep in mind that you may no longer qualify for the loan type you currently have.

What impacts your new or refinanced mortgage?

As we have seen, even if rates are lower on paper, that may not mean they'll actually save you money in the long run. Let's take a look at some factors that can increase mortgage rates and reduce the amount you save.

Loan-to-value ratio

A loan-to-value ratio (LTV ratio) assesses a borrower's risk level by evaluating the amount of the mortgage loan versus the current market value of the mortgaged property.

For example, if you need a $400,000 mortgage on a property valued at $500,000, you have an LTV ratio of 80%.

Remember those slightly higher refinancing mortgage rates?

Those typically occur because you're either cashing out equity as part of the refinance, or wrapping closing costs into the new mortgage. Doing so increases the LTV ratio. If it goes over 80%, you'll only qualify for higher interest rates and the lender may require you to pay for mortgage insurance.

If you've paid your existing mortgage for a number of years—and your home's value has risen during that time—then your LTV ratio has improved and you're likely to get a good rate.

However, if your home's value decreased after taking out your existing loan—and you're now upside-down on your mortgage—then your LTV worsened over time, even if you've been consistent in your mortgage payments. In this situation, your LTV ratio will only qualify you for the most expensive interest rates, if you qualify at all.

Closing costs, fees, and other unexpected expenses

Getting a new mortgage is going to cost you. Aside from the potential for mortgage insurance, you're going to have closing costs and lender fees which can be between 2% to 6% of your total loan. Freddie Mac reports that the average closing costs for a refinance are $5,000.

There are also other expenses specific to you that must be accounted for when you're calculating how much that lower interest rate is actually saving you.

For example, homeowners who received a First-Time Homebuyer Credit may need to repay that credit when closing out that first mortgage — whether refinancing or buying new.

So, keep in mind that an initial rate comparison may seem to indicate that you'll save money with a better rate that lowers your monthly mortgage. However, those minimal monthly savings over time may not ultimately outweigh the amount you'll pay in fees to get the new loan.

Are you in a short term problem, or is it a long-term problem?

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  Rick Ruiz Real Estate Agent

  Close

  

  Rick Ruiz Real Estate Agent at GK Properties

  - Years of Experience 20
  - Transactions 1204
  - Average Price Point $242k
  - Single Family Homes 1001

Time to decide: Refinance or sell?

Every homeowner's financial situation and existing mortgage structure is complex and unique, so there is no one-size-fits-all answer. To decide, it's best to analyze your financial need and seek expert advice for your specific situation.

Decide whether your financial need is short-term or long-term

For any homeowner short on funds, Ruiz recommends first asking, "Are you in a short term problem, or is it a long-term problem?"

If your problem is short-term and very specific — say, you need help paying several large medical bills, but you've got typical monthly expenses covered — Ruiz suggests a third option that is especially helpful in a high-interest-rate environment: a home equity line of credit (HELOC). Although this loan type still borrows against your equity, origination fees will be much lower than for a refinance. Plus, although you may be approved for a large amount, you only take out and pay interest on th orl youp paifi rough you te orl pe oirp pa

Will you be better off if you sell or refinance your mortgage?

Reading Time: 4 minutes

Homeowners' level of equity has hit its all-time high. More than 38 percent of homes that are owner-occupied are owned outright, the U.S. Census confirms; these homeowners no longer have a mortgage.* Those who do have a mortgage are still seeing their equity spike. Each time home values increase, homeowners receive a dollar-for-dollar equity gain.

ATTOM Data Solutions' second-quarter 2021 U.S. Home Equity Report shows:

"34.4 percent of mortgaged residential properties in the United States were considered equity-rich in the second quarter, meaning that the combined estimated amount of loans secured by those properties was no more than 50 percent of their estimated market value.

The portion of mortgaged homes that were equity-rich in the second quarter of 2021 — one in three — was up from 31.2 percent in the first quarter of 2021 and from 27.5 percent in the second quarter of 2020."

If you're a homeowner, this spike in home equity may present you with two distinct opportunities: to refinance and cash out on some equity or lower your monthly mortgage payment, or to sell and move into a new home that better suits you and your family.

2 exciting ways to leverage your new equity gains

Should you sell or refinance? Let's explore what's possible:

1. Refinance your mortgage.

Having an influx of equity, along with today's historically low mortgage rates, can make refinancing your mortgage a smart option. Many homeowners have refinanced in the past year to lower their monthly mortgage payment. And others have opted to exchange a portion of their equity gains for cash, while their monthly payment remains the same.

You may be stunned to know exactly how many homeowners are eligible to take advantage of high equity levels and low mortgage rates — but have yet to do it.

Just accounting for Freddie-Mac-funded mortgages, as many as 24 million borrowers could benefit, recouping their refinancing closing costs within just five years. In this same time frame, these millions of homeowners could save an estimated $7,000 per borrower (after paying for closing costs), adding up to savings of $170 billion total.

As of May 2021:

- There were 452,122 home loans with an average mortgage rate of 6.17 percent.
- 1,027,834 loans had an average rate of 4.39 percent.
- 3,687,780 loans had an average rate of 4.21 percent.

Compare this to today's mortgage rate sitting around 3 percent. Any of the homeowners above could see significant savings simply by refinancing at the current rate. These homeowners could potentially lower their monthly payment by hundreds of dollars or cash out on a substantial sum to be used for renovation, vacation, paying down debt, or starting a small business.

For example:**

- If you have a $200,000 mortgage at a 6 percent interest rate (6.23 percent Annual Percentage Rate) and refinance to a 3 percent rate (3.19 percent Annual Percentage Rate), you may lower your payment (principal and interest, or P&I) from $1,199 to $843 a month.
- As a result, you'll save $356 per month, adding up to $4,272 per year.

Or, you may choose to cash out on your rising equity, without changing your monthly payment.

More money, less problems? It might be time to refinance.

2. Move into your forever home.

The circumstances of the last year have caused many homeowners to reassess their wants and needs — and rethink what their dream home might look like. The homeowners currently paying a higher mortgage rate could put their growing equity toward a new down payment. This may enable them to buy a new home (perhaps bigger/in a better location) without much change to their monthly payment.

For example:**

- Maybe you bought your current home for $216,000 in 2006 (the median home price for May 2006, at the height of the market).

- If you paid 10 percent down and took out a $194,400 mortgage at a 6.41 percent mortgage rate (the average for 2006; 6.65 percent Annual Percentage Rate), your monthly payment (P&I) might be around $1,217.

National Association of REALTORS® (NAR) numbers show that the value of a standard single-family home has increased by $150,000 in the past 15 years. Today, a $216,000 house would have appreciated to about $366,000. When you factor in expenses for selling ($150,000 minus $20,000 in expenses), you'd be left with roughly $130,000.

You could apply this equity toward a down payment on your next house. Suppose you buy a new home for $450,000 (about $80,000 more than your current home's value). By putting down $130,000, you may be able to take out a $320,000 mortgage at a 3 percent rate (3.18 percent Annual Percentage Rate). Your monthly payment (P&I) may be $1,349.

So, you could purchase a house worth $80,000 more and yet only pay an extra $132 a month.

Should you sell or refinance? Get your answer.

Your current equity level and mortgage rate are critical to determining whether you decide to sell or refinance. Take a look at your loan documents to locate your interest rate, and then reach out to a local loan officer to see how much equity you've accumulated. You may be amazed.

*"2018 American Community Survey Public Use Microdata Sample," U.S. Census Bureau/Construction Coverage, 2020.

**MBS Highway payment estimate, rounded to the nearest dollar amount. Rates listed (30-year fixed, as of 6/15/2021) are for illustrative purposes only and are subject to change.

While refinancing could make a significant difference in the amount you pay each month, there are other costs you should consider. Plus, your finance charges may be higher over the life of the loan.