

When to Refinance Your Home

There are a number of situations in which refinancing a home mortgage makes sense. For example, you may have purchased a home years ago when interest rates were much higher and now want to take advantage of a decline in mortgage rates. In addition, a homeowner with a volatile variable rate mortgage may want to switch to more predictable fixed-rate loan. You may even want to shorten the term of your loan.

Is Refinancing Worth the Trouble?

Refinancing can be very beneficial, but it is not always the smart thing to do; the costs associated with refinancing must be balanced against any potential savings. Generally, refinancing a fixed-mortgage makes sense when the interest rate on the current mortgage is at least 2 percentage points higher than the prevailing market rate. In some instances, however, following this "rule" may cost the homeowner a lot of money as a very small percentage point spread may justify refinancing if other factors are present.

Other Factors Which Must Be Considered

There are a number of factors which must be considered in this "cost vs. benefits" calculation, including:

- **Closing costs:** Possible pre-payment penalties on the old loan, points and fees on the new loan, and attorney fees generally will total 3% to 4% of the loan amount and must generally be paid when the new loan closes. The borrower must consider the loss of earning power of these funds in future income projections.
- **Projected length of ownership:** The closing costs can be spread over the period of the loan; therefore, the longer the projected period of ownership, the smaller the spread between the old and new mortgages can be.

- **Loans in excess of certain limits – Tax Cuts and Jobs Act of 2017 (TCJA):** For 2018 – 2025, mortgage interest on “acquisition” debt on a first and second residence, on total loan amounts of up to \$750,000 (\$375,000 MFS) is generally deductible; interest on debt in excess of these limits is not deductible. Acquisition debt refers to debt incurred to buy, construct, or substantially improve a qualified residence, and which is secured by a qualified home. This dollar limitation applies to debt incurred *after* December 15, 2017.

Refinancing an old home loan could mean lower monthly payment and perhaps changing from a variable rate mortgage to a fixed rate mortgage. However, if the projected time in the house is short, the closing costs may consume any potential savings. As an additional alternative, if you plan to sell in a year or two, a variable rate mortgage with an initially lower rate may be advantageous. There are many factors to consider so don't be afraid to contact your Jacobi Capital team to help you walk through the process and analyze your options.

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