



Should You Stretch Out a Mortgage Refinance?

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When money is scarce, borrowers may benefit from turning conventional wisdom on its head and opting for a mortgage refinance over the longest possible period.

This can help lower monthly payments and free up hundreds of dollars each month for other obligations.

"If you're trying to stave off a short sale or foreclosure, extending your loan term will surely help make your mortgage payments affordable again," says Ritu Agrawal, co-founder of The Money Ladder, a personal financial advisory firm in Minneapolis.



Is it for you?

Agrawal acknowledges some drawbacks to opting for a longer loan.

"One is that you will pay more in interest over the life of the loan," she says. "Also, if you were to sell your home after a few years, you'd accumulate less equity than you would have under a 15-year or shorter-term mortgage."

But borrowers struggling to meet monthly financial obligations or facing foreclosure have far more pressing concerns than how much more they might pay or save over the life of the loan.

"Our clients who have experienced an adverse event, such as a layoff, divorce or a major medical expense, often seek to reduce their mortgage payments while they try to get their finances back on track," Agrawal says. "It's much better to have a longer-term mortgage than to risk losing your home or damaging your credit by making late payments."

Jay Dacey, a mortgage planner based in the Minneapolis area, also believes it can make sense to extend the mortgage term and reduce the monthly payment.

"Let's say life happens and you are stuck paying for a new furnace, car transmission or Junior's tuition bill," he says. "Having a 30-year term instead

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of 15 years lowers your monthly hurdle. You can always pay extra (from month to month), but never less."

Although many people equate being debt-free with wealth or security, Dacey calls that concept outdated.

"Just because your home is free and clear of mortgage debt doesn't mean you are wealthy," he says. "But having your assets compound and pay you dividends can build wealth."

Who qualifies?

While refinancing might be beneficial, not everyone will qualify. In the post-housing bubble period, credit is not always easy to obtain.

A borrower's credit score is important. As always, higher scores equate to lower interest rates and fees.

"You are in the driver's seat if you have a 740-plus score," says Dacey.

However, borrowers in the 620 to 660 range will tend to pay 2 percent to 3 percent more in fees or a 0.5 percent higher rate.

"Certain FHA lenders still fund refinances for borrowers with sub-600 credit scores, as long as the applicants meet other criteria," Dacey says.

Such criteria includes having appropriate debt-to-income and loan-to-value ratios and a store of adequate asset reserves, Dacey says.

Take action

Some borrowers facing a mountain of financial difficulties may find it difficult to overcome the tendency toward inertia, says mortgage banker Jason Bonarrigo of Wells Fargo Home Mortgage in West Roxbury, Mass.

"It's human nature to want to bury your head in the sand," he says.

However, borrowers have to address financial issues that aren't going to get resolved on their own. Bonarrigo advocates learning about all options and seizing the initiative.

"Talk to your bank or attorney," he says. "Consider a short sale, which is much better for your credit than a foreclosure is. Let's agree that this isn't going away, so go forward now to minimize the damage to your life so that you can turn it around faster."

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