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Want to refinance your mortgage now? A checklist



By Lynn Adler
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Peggy Abkemeier, president of Rent.com, an eBay company in Santa Monica, California, refinanced her mortgage last year. And because interest rates are so low, she could cut costs again by refinancing that 5 percent loan now. "But I don't want to go through all of that again" without savings much greater than 1/2 percentage point, she said. "I felt like I had to sign over a first-born."

Want to refinance your mortgage and lock in the lowest loan rates on record but hear horror stories about banks who don't want to lend? The hurdles are likely much higher than last time you borrowed. Gail Cunningham of the National Foundation for Credit Counseling in Silver Spring, Maryland, said there may not be any "magic bullets that will guarantee approval," and has heard of consumers with a year's income in the bank who have been turned down for a refinance loan.

Here is a checklist to increase your shot at getting your application approved.

Go to your lender already armed with paperwork. You'll need pay stubs or other proof of wages, income and asset statements, and credit card documents. Abkemeier suggests getting the last three bank statements from each of your active accounts and being prepared to explain any large transfers. You will also need to compile income statements and original purchase or prior refinancing papers. If you have paid off credit cards, bring that paperwork, too.

Are you self-employed? Getting income and asset records together is especially important. The more documentation you have, the better, experts say. Banks who freely lent before the housing crash now want more proof of consistent cash inflows.

A sound property value estimate will go a long way. "The onus today is upon the borrower," says Keith Gumbinger of mortgage research firm HSH Associates in Pompton Plains, New Jersey, who calls the process daunting. "Unlike just a couple of years ago, you absolutely must prove you are the borrower you say you are, and your property must prove that it has the valuation that you claim it does." This may mean getting several appraisals, and checking various real estate web sites for comparable recent sales in your neighborhood.

Confirm your credit score. Average mortgage rates may have never been lower, near 4-1/4 for 30-year loans, but you may not qualify for the best rates unless you have stellar credit. A FICO score of 720 is the "break-even point" for the best rates, Gumbinger said. Fees are tacked on below that grade, and may cut the value of refinancing.

Go to annualcreditreport.com for a free annual consolidated credit profile and also check myFICO.com, he suggests. Find any errors and fix them before starting the process, to avoid surprises that delay approval.

Shop Around. If one lender turns you down, try another. "Certainly go back to your current lender, but if there's not an opportunity there, there are still a large number of originators who want to solve the problem," said Michael Fratantoni, vice president of research and economics at the Mortgage Bankers Association.

Some lenders are more willing to work with self-employed workers with more documentation challenges than others, for example, several experts said. If your loan is more than 80 percent of the value of your home, you'll likely to need mortgage insurance. Refinancing might not be worth the cost in that case, Fratantoni said.

Cashing in instead of cashing out can make the difference. "Borrowers should consider bringing additional equity to the table," or cashing in, rather than refinancing for an amount larger than the mortgage, which is cashing out. Almost one-quarter of borrowers who refinanced in the second quarter cut their principal balance by paying more money at the closing table, matching the third highest cash-in share in records dating back 25 years, Freddie Mac said in July.