

Wi\$e Up Teleconference Call  
November 30, 2006  
Becoming Credit Smart, Part II  
Speaker 3 – Lisa Featherngill

Jane Walstedt: And now, I'd like to ask Lucia Bruce, Program Analyst from the Women's Bureau Regional Office in Philadelphia to introduce our third speaker. Lucia-

Lucia Bruce: Thank you, Jane.

Good afternoon, everyone. Lisa Featherngill is a Managing Director at Heritage Wealth Advisors. She previously led the Mid-Atlantic region financial planning and business advisory practices for Wachovia Bank, which she joined in 1996 after spending 11 years with Arthur Andersen in Washington, DC.

Lisa is a Certified Public Accountant, Certified Financial Planner and Personal Financial Specialist. Lisa works with affluent families, business owners, and senior executives on tax and strategic financial matters, including the design and implementation of family wealth transfers, liquidity event planning, investment strategies, compensation planning, business succession or exit plans, and tax minimization solutions.

She also has significant experience in the areas of individual income taxation, as well as planning with private foundations and charitable entities. Lisa serves as online host and tax expert for *USAToday.com Tax Chat* and tax expert for the Richmond NBC affiliate WWBT's call-in tax information show.

Memberships include the American Institute of Certified Public Accountants and the Virginia Society of Certified Public Accountants.

Lisa, welcome.

Lisa Featherngill: Thanks, Lucia. I'm going to talk about refinancing. And Jane mentioned earlier that usually people refinance in order to get a lower [interest] rate. And that's true.

And we did see rates drop pretty significantly from late 2000 through the end of 2003. And then the Fed [Federal Reserve Board] started raising [interest] rates again in 2004, which had an impact on the home mortgage [interest] rates as well.

The rates have actually been somewhat stable for mortgages for the last couple of years. So you might ask yourself, "Why would I consider re-financing now?"

Well, a lot of people--with the price of real estate [being so high]--have gone into adjustable rate mortgages over the last five years in order to make the mortgage payments affordable, and we're at a really interesting point right now, one that I've never seen, and, trust me, I refinance [often].

Right now fixed rates in some cases are lower than adjustable rate mortgages. [For more information on adjustable rate mortgages, refer to the Federal Reserve Board's publication "Consumer Handbook on Adjustable-Rate Mortgages," which is available online at [http://www.federalreserve.gov/pubs/arms/arms\\_english.htm](http://www.federalreserve.gov/pubs/arms/arms_english.htm).]

It has something to do with the yield curve being somewhat flat right now. So, chances are, if you've got an adjustable rate mortgage, and it's about to get to the point where it's no longer fixed, so say you got a five-year ARM [adjustable rate mortgage] back in 2001, and it's getting ready to what I'll call mature, so the rate could jump two points this year, two points next year, you might seriously consider [getting] a fixed loan at this point.

As I said, the rates are...it's really almost an anomaly right now what's going on with the market. I took a quick search out on Yahoo! Finance. And it showed one-year ARMs are at a 5-- and that is an average rate of 5.3%, whereas the 30-year fixed rate was 5.67%. Five-year ARM was at 5.49 [percent] and a seven-year ARM at 6.72 [percent], which is actually higher than the fixed rate.

So if I had a chance to go into an ARM versus a fixed rate mortgage and the fixed rate mortgage was only half a percentage point more, I'd certainly consider the fixed rate mortgage.

So, should you refinance? What issues should you consider? Well, one, you've got to look at the upfront costs. And usually what you do when you want to look at refinancing, just like Paul was mentioning getting into a bidding war with the cars-- with car prices-- you can really do that with mortgage rates as well [by] just going to someplace like Yahoo! Finance. Go into banking and credit and start clicking on some of the mortgage rates. You'll actually...you'll get requests for information. You can send that in and you'll start getting bids back by fax.

And so, when you look at those, you have to be really careful to look at what the lender charges are going to be. They might be somewhat disguised as processing fees or other lender charges, but look at what's the total cost to refinance.

So you might have points. [A point is an upfront cash payment required by the lender as part of the charge for the loan, expressed as a percent of the loan amount; e.g., "3 points" means a charge equal to 3% of the loan balance.] I'll get to that in a second. You might have filing fees, processing fees. Again, the difference can be pretty substantial between lenders.

I'll tell you personally, we just refinanced last month. When we were looking at bids, there was a \$1,000 difference in upfront costs between lenders, and we did it all online.

Again, online there are a lot of different calculators that you can use to determine the *break-even point*, which is really critical when you're deciding to...whether or not to refinance.

You need to look at how long it will take [you] to recover those upfront fees and then decide whether you'll be in the house long enough to recover those costs.

You have to be there at least as long -- or you don't have to be in there even, if you continue to own it. You need to own it at least as long as it's going to take to recover those costs.

Again, I don't mean to sound like a plug for Yahoo! Finance, but if you go to Yahoo! Finance and get to “mortgages,” there's a really good calculator there that you can use, and you can put in information about your existing loan, and you can put in information about a proposed loan, [and] it will tell you how long it takes to break even. [This calculator is available at [http://partners.leadfusion.com/tools/yahoo\\_loan/home11/tool.fcs](http://partners.leadfusion.com/tools/yahoo_loan/home11/tool.fcs).]

Another thing you might consider with your current loan is **a modification rather than a refinance**. Remember, a refinance is really going through the process of qualifying for a loan all over again.

If you don't want to go through all that paperwork, quite often your original loan will have a provision whereby you can make a change in the rate or some other change in the terms, and it won't be considered a full refinance.

So, you need to see 1) if your existing loan will allow you to do that, and 2) what the charge is for that--what the charge is for a modification, and actually also 3) look at the terms--by terms, I mean the interest rate that they would give you on a modification.

I actually looked at this recently for my own loan, and the modification, while it was easy, did not give me as competitive a rate as going online and shopping.

So, how to refinance - I'm sorry - how much to refinance? Well, chances are, if you've owned your home for a while, it's appreciated. So you could, as Jane was saying earlier, you could cash out some of the equity.

I get very, very nervous when people talk about cashing out equity to use it for consumer purchases. But certainly if you're looking at paying down higher interest rate debt, it makes a lot of sense.

Once you go above 80% [of the] loan to value [ratio], i.e., the balance of your mortgage loan versus the value of your house, you have to get mortgage insurance, and that can get a bit costly. So you have to factor that in as well if you are going to go above 80% of the value. [As a result of a new tax law passed by the 109<sup>th</sup> Congress, mortgage insurance will be tax deductible in 2007. The tax deduction applies only to mortgages that are closed in 2007. For more information, please read “New tax deduction created for mortgage insurance” on Bankrate.com, [http://www.bankrate.com/brm/news/mortgages/20061214\\_deduct\\_mortgage\\_insurance\\_a1.asp](http://www.bankrate.com/brm/news/mortgages/20061214_deduct_mortgage_insurance_a1.asp)].

Also, if you refinance and you take out more--you take out money--you refinance more than the original loan--at some point, you may get into a situation where your interest becomes non-deductible.

So in order for the interest to be [tax] deductible, it [the loan] has to qualify as a home equity loan, which basically means that, as long as you refinance and the amount that you refinance is the amount of the old loan, and it's the original amount of the old loan plus \$100,000, you're okay.

Should you pay points to reduce the rate? And that's always...you know, that's always something you've got to consider. Again, that's going to go into that break-even analysis because that is going to affect the upfront cost if you pay points and it's going to affect the monthly payment if you get a lower [interest] rate.

How to get started? Again, going online is probably the best way to shop the rates. As I said, you can put in some information, [and] you'll start getting some calls or faxes back. Again, you can get into a bidding situation. And there's really no need for the lender to be nearby.

When you think about it, the lender has almost become virtual in this market because all you need is a settlement attorney, a real estate attorney, or an attorney to settle the paperwork that needs to be nearby, and every mortgage company has relationships with those types of attorneys throughout the country.

And then, finally, what if we've already refinanced already? As I mentioned, I'm pretty much a serial refiner. There is no need...there's no limit on the number of times you can refinance as long as it makes economic sense.

One thing to consider if you are buying a house for the first time and you pay a point, that point is deductible on your income tax return as an itemized deduction. If you refinance and you pay a point, that point has to be amortized over the life of the loan.

If you then refinance again, the point that you were amortizing previously can be completely written off, and you [can] start amortizing the new point.

That's all I have.

[For more information on refinancing, see Fannie Mae's "Is now a good time to refinance?" 2001

(<http://www.fanniemae.com/global/pdf/homebuyers/refinance.pdf>), which discusses, among other things, when it makes sense to refinance, what is involved in refinancing a mortgage, how you determine what's best for you, whether now is the best time to refinance, and the types of mortgages—fixed-rate, adjustable-rate, InterestFirst, and Fannie Mae's Two-Step Mortgage.

See also "Interest-Only Mortgage Payments and Payment-Option ARMs—Are They for You?" by the Board of Governors of the Federal Reserve System. The latter contains a glossary of such terms as "amortizing loan," "negative amortization," "equity," "principal," and "prepayment penalty," some of which are used by the speakers on this teleconference call. The publication can be found on the Web site of the Federal Deposit Insurance Corporation at [www.fdic.gov/consumers/consumer/interest-only/index.html](http://www.fdic.gov/consumers/consumer/interest-only/index.html).

The Federal Reserve Board also has a publication called "A Consumer's Guide to Mortgage Settlement Costs," available at <http://www.federalreserve.gov/pubs/settlement/default.htm>.

Another source of information is "Looking for the Best Mortgage: Shop, Compare, Negotiate," which, among other things, contains a glossary of such terms as "adjustable-rate loans," "conventional loans," "fixed-rate loans," "loan origination fees," "lock-in," "points," and "private mortgage insurance." This publication can be found at <http://www.hud.gov/buying/booklet.pdf>.

Information on home equity lines of credit is available in “What you should know about Home Equity Lines of Credit,” a publication of The Federal Reserve Board. The publication can be accessed at [www.federalreserve.gov/pubs/equity/equity\\_english.htm](http://www.federalreserve.gov/pubs/equity/equity_english.htm).]

Jane Walstedt: Thank you so much, Lisa, for that useful information.