Is It Time To Refinance Your Mortgage? - Transcript

Tom Mullooly: In episode 82, we're going to go through some numbers and decide if it's time to refinance that mortgage.

Welcome to the Mullooly Asset Show, I'm your host Tom Mullooly and this is episode number 82. We get questions all the time from our clients and our listeners and our viewers, if you've got a question that's keeping you up at night, get in touch with us.

We'd be happy to talk about it with you and you may wind up seeing it on a future video. So, Tim, Friday afternoon, come on give me something. What are we talking about today?

Tim: I've been thinking about refinancing my mortgage. Is now a good time?

Tom Mullooly: According to some people in the mortgage industry, it's always a good time to refinance your mortgage. Refinancing your mortgage is expensive. There's a lot of costs that get piled into your loan and you may be paying it over the next 15 or 20, or even 30 years.

So be really, really careful. But, we get this question a lot. Hey, I'm thinking about refinancing my mortgage and I'm told that I can get, fill in the blank number. Let me set the record straight. Any number below 5%, historically for a mortgage, that's awesome. That is a really great rate. So, anything in the fours or less, you're doing terrific.

The historical reasoning used to be, if you could save 2% on your mortgage then it was worth it to refinance. I think that's kind of gone by the boards these days. But I want to share with you something that happened. We went through this case in our very own office recently. We have someone who has an adjustable rate mortgage.

He is paying right now, 4 and a quarter percent, pretty good. He said, "I'm thinking about refinancing." And we started in with the usual, hey if you're under 5%, you're okay. He said, "Let me explain, the base rate for my mortgage is LIBOR plus 2 and a quarter. I said, "Which one?" Understand with LIBOR there is one week LIBOR. There's one month LIBOR. Three month, six month, twelve month LIBOR. LIBOR stands for the London Interbank Offering Rate.

So, LIBOR is the rate that a bank charges another bank to borrow money overnight, over a week, over a month ... You get the idea. Alright, that is the rate between banks. So, LIBOR changes. It changes every single day. So, it's important to know, hey, am I ... Is my mortgage tied to a three month LIBOR, six month LIBOR, twelve month LIBOR. It's important to know this thing. And you can look it up online. Just Google it.

So, let me walk you through some numbers because these are pretty good. When this mortgage rolled over and they started his mortgage was six month LIBOR plus two and a quarter percent. So, in 2010 six month LIBOR was .38. So all you did was you added .38 and two and a quarter and his rate was 2.63.

Now, his mortgage company rounded that up to 2.75. But for the next six months, he paid two and three quarters percent for a mortgage. That's awesome. A couple of years later in 2014, right Tim, yeah in 2014, six month LIBOR was even lower. It was at .34. So when you add .34 to 2.25, two and a quarter, his mortgage was 2.59. So, he stayed at 2.75. Can you imagine having a mortgage for 2.75? That's fantastic.

Here's the rub, the reason why he called us is because today, six month LIBOR is at 2.41%. It's come up a lot. In fact if you go on any of these market related websites, you're going to see that people ... Yeah, people want to talk about a trade war, they want to talk about Trump, they want to talk about the economy. But LIBOR is going to be the story in this first half of 2018. These numbers are skyrocketing.

What's happening is banks are charging each other higher and higher rates to borrow money on a weekly, nightly, weekly, monthly type of thing.

So, now, this guy's faced with a problem. Okay, he's paying at the moment, 4 and a quarter percent on his mortgage. Six month LIBOR is now going up every day. It's at 2.41%. Add that to two and a quarter percent. When his mortgage resets, he's looking at 4.66. So, now the mortgage company will just round that up to 4.75.

He told me that he can get a new mortgage, fixed, 4.5%. For once, in the last 5,6,7 years, it makes sense for him to switch from adjustable rate to a fixed rate. Rates are still historically really low. I don't want to come off sounding like we're doing an ad for mortgages, but you need to understand the numbers where your mortgage gets based off of.

There have been several times in the last 30 years where LIBOR, the base rate, six month LIBOR has been over 4%, and many times where it's been over 5%. So, if you have an adjustable rate mortgage and it's tied to six month LIBOR plus 2 and a quarter and say LIBOR's at 5%, you're talking about a 7 and a quarter percent mortgage. That can really hurt a lot of families who are just trying to make ends meet.

It makes sense now if you have an adjustable rate mortgage to start looking around. We don't do mortgages, but we'd be happy to talk to you about the economics of making this work.

That's what your financial planner ought to be doing for you. If you've got questions regarding that or any other investment related topic, get in touch with us. You can find us on the web or just give us a phone call. That's it for episode 82, see you on 83.