TANDEM WEALTH MANAGEMENT
MOVING FORWARD TOGETHER

September 2019

Mortgage Refinance

Planning for retirement is a long-term process and includes both saving and reducing expenses. Once we make sure you are on track with your savings, the focus then shifts to reducing your expenses or income replacement needs in retirement. Mortgage payments tend to be the most significant household expense and being able to pay off your mortgage before retirement means that you will not have to replace that income. For example, if your mortgage payment is $1,200 per month, we can reduce your net income need by this amount when we create the retirement spending portion of your Financial Plan.

With falling interest rates, you may want to consider refinancing. The goal of refinancing is two-fold. Your first goal should be to lower your interest rate and second, possibly decrease the length of your mortgage, such as a 15-year or 20-year term. Sometimes, the decrease in the interest rate can be substantial enough to make the shorter term affordable.

For example, if your original mortgage of $225,000 30-year term at 4.5% interest began on October 1st, 2015, your monthly principal and interest payment would be $1,140 (not including escrow), and your mortgage would be paid off on 9/1/2045.

As of 9/30/2019, your remaining principal balance would be approximately $209,000. If you switched to a 20-year term at 3.5%, your new monthly principal and interest payment would be $1,212 (not including escrow), and your mortgage would be paid off on 9/1/2039. Your monthly payment would increase by $72, but you would pay off your mortgage six years earlier and save over $62,000 in interest.

If you currently escrow your homeowner's insurance and property taxes, you may consider eliminating that payment if your bank allows and if you will be diligent about budgeting for these payments. Escrow accounts require a larger down payment and require a reserve above the budgeted costs. Some homeowners prefer to use an escrow account to make sure these bills are accounted for even though the escrow account may be greater than the actual bills due.

Refinancing is not right for everyone, especially if your current interest rate is lower than what is available, your mortgage balance is less than $50,000, or your remaining term is less than ten years. Instead, you might consider making additional principal-only payments to pay your mortgage off earlier without incurring the closing costs of refinancing.

Please let me know if you have any questions regarding how refinancing your mortgage can impact your Financial Plan.

Kind regards,

Meghan

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