Refinancing at Prairie Savings and Loan

Refinancing allows you to obtain a new mortgage at a lower interest rate, or for a different term. For example, you might decide to refinance to switch from a 30-year mortgage to a 15-year mortgage. This fact sheet summarizes what you need to know to refinance your home mortgage.

The basic terminology is the same for any mortgage. The amount of money you borrow is known as the principal, and the money you pay to a financial institution for lending you the money is the interest. Part of your monthly payment goes to paying the interest, and part goes to paying off the principal. With most mortgages, your early payments primarily pay off the interest. Then, over time, your payments increasingly reduce your principal. The more principal you pay off, the more equity you have in your home.

# Choosing a Type of Loan

Homeowners often choose to refinance because they are interested in obtaining a different type of loan than they had when they first obtained a home mortgage. The two major categories are:

* Fixed-rate mortgage: A fixed-rate mortgage maintains the same rate throughout the entire payment period. This means your monthly payment will never change. The advantage of a fixed-rate mortgage is stability; your payment is the same every month. However, interest rates for a fixed-rate mortgage are slightly higher than for other types of loans.
* Adjustable rate mortgage (ARM): The interest rate for an adjustable-rate mortgage changes throughout the course of the payment period. Most commonly, the interest rate for an ARM changes yearly, although some start out at a single rate for several years, and then adjust. The advantage of ARMs is that they typically start out at a lower rate than fixed-rate mortgages. However, over the long term, you can end up paying a much higher interest rate as the ARM adjusts to reflect prevailing interest rates.

In addition to deciding between a fixed-rate and an adjustable-rate mortgage, you also need to decide if you want to take advantage of your home equity to borrow additional funds.

# Qualifying to Refinance

The loan agents at Prairie Savings and Loan considers several factors when evaluating any loan application, including a refinancing application. The three most important considerations are:

* Credit score
* Basic income
* Debt-to-income ratio

You will need to provide the same documentation required when you applied for your original home mortgage:

* Social Security number
* Proof of employment history for the last three years
* Pay stubs
* Tax documents for the last two years
* W-2 statements
  + Tax returns
  + Proof of current residence
* Bank account information
* Credit report
* Real estate contract
* Letters documenting any financial gifts from family or friends that will help fund your house purchase
* Itemized list of monthly expenses

When refinancing a rental property, you will need to provide additional documentation. Please see your loan agent at Prairie Savings and Loan for details.

# Refinancing Process

The refinancing process is similar to the process for applying for your first mortgage:

1. Supply the required documentation.
2. Get preapproved for a specific amount.
3. Complete the online form.
4. Prepare for closing.
5. Sign the paperwork at the closing.

The complete process can take up to two months, so if you are refinancing in order to begin a remodeling project, be sure to consider timing when submitting your application.

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