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PREPARING FOR A REFINANCE

Refinancing is what you do when you put a mortgage on a piece of real estate you already own. Mortgage lenders call it a refinance even if you own the real estate free and clear. Use this handy TCS refinance guide to understand the process and avoid common pitfalls. We at TCS have had lots of experience closing refinance transactions. We'd like to help you be an educated consumer.

1. ORDER A PAYOFF LETTER

If you have an existing mortgage, the very first step is to ask your mortgage lender for a payoff letter. All of the calculations you and your new lender figure will be based on how much you owe. Do NOT skip this step. There may be a small fee to get the letter, but it's worth it.

Don't just check your current principal balance, it's not the same as a payoff. Why? Well, mortgage interest is paid in arrears. That means that your September payment actually paid the interest for August, so you are always one month behind in interest. When you payoff your mortgage, the lender will play catch up and add the remaining interest to bring you current. **AVOID THE MOST COMMON REFINANCE PITFALL** by getting a payoff letter up front.

2. THE HIDDEN AFFECT OF PROPERTY TAXES AND HOMEOWNERS INSURANCE

Timing and pre-planning a refinance will help you **AVOID THE SECOND MOST COMMON REFINANCE PITFALL** - getting caught in a cash crunch because your money is tied up in an escrow account at the time of closing.

If your existing mortgage lender has money set aside in an escrow account, look closely at the payoff letter to determine how they will handle these funds. Some mortgage lenders will give you an immediate credit for the escrow balance and this reduces the amount of the payoff. That's great, but most lenders will simply mail you a refund check 2 to 3 weeks after the mortgage has been paid off. If it looks like you'll be getting a refund check, it is very likely that you will have to bridge the gap and come up with cash at closing to set up your new escrow account for the new mortgage lender. Here's a tip - most mortgage loan officers don't really understand this scenario, so **YOU** really need to plan ahead yourself.

Timing again is the key to AVOIDING THE THIRD MOST COMMON REFINANCE PITFALL - a cash squeeze related to property taxes. If you are closing your refinance transaction at the same time the property taxes are due, you could get caught in a title guarantee "Catch 22". Here's how it works. Let's say the county property tax is due at discount on March 31st. You are planning to close on March 20th. The tax collector is reporting the tax as unpaid. Your existing mortgage lender has debited your escrow account to pay for the tax and may or may not have actually mailed the check to the tax collector. Since the tax has NOT been officially paid, TCS has to collect the tax from you at closing to guarantee payment for your new mortgage lender. It's a real "Catch 22" and the only way to avoid it is to plan the closing date around the payment of the tax. Closing would need to either take place before your existing lender debits your account OR closing should be delayed until the tax payment has been posted by the tax collector. This is often easier said than done because you may be up against a rate lock expiration with your new mortgage lender and can't delay closing.

The good news is that in either case, when you have to ante up cash at closing to cover tax or insurance related payments, you will always eventually be made whole. Refunds are processed as the payments are made and posted. If you have the cash available to ride through the refund process, that's okay, but if you don't, this information will help you to plan to avoid this kind of a last minute snag.

3. THINK ABOUT WHEN YOUR NEW MORTGAGE PAYMENTS WILL START.

Refinancing often gives you a one or two month break from having to pay a mortgage payment. For instance, let's say you are closing on February 5th and haven't yet made a mortgage payment for February. Well, your existing mortgage will be paid off before the end of a typical 15 day grace period and it's likely that your new mortgage payments won't start until April 1st. Make a note to discuss this with your new lender and keep any possible cash flow benefit in mind just in case you need to come up with unexpected cash to close due to tax or insurance related payments.

4. WHAT IS THE PURPOSE OF THE REFINANCE?

Your new mortgage lender will want to know. Are you just reducing the rate/term or do you actually need to pull cash equity out of the property? Each mortgage loan program has specific guidelines relating to the length of time you have owned the property, how much cash you can pull out, etc. Be prepared to estimate the value of your property and discuss why you want to refinance. This will help your new mortgage lender find a program that's right for you. An appraisal ordered by the new mortgage lender will ultimately set the current market value, but you have to consider possible options should the value come in lower or higher than expected, later on you and your lender can adjust the loan amount accordingly.

BOTTOM LINE - DO SOME HOMEWORK TO AVOID EXTRA STRESS, THEN REAP THE BENEFITS OF REFINANCING. WE AT TCS ARE HERE TO HELP YOU DO JUST THAT.