Fixed-Rate Home Equity Loans

Avoiding Unnecessary Costs When Refinancing

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Key points:

- *A fixed-rate home equity loan is an alternative to refinancing with a traditional mortgage.*
- *Closing costs and other fees associated with fixed-rate home equity loans are typically lower than other types of refinancing options.*
- *Fixed-rate home equity loans offer several advantages over other types of refinancing.*

I LOATHE PAYING UNNECESSARY FEES. I'd rather get something of value for my money. My husband will tell you: I will almost always buy more to get free shipping. Which brings me to my topic of taking advantage of lower mortgage interest rates without paying excessive fees, like closing costs.

Many mortgage companies will encourage you to lump closing costs into the new mortgage — as if you're not still paying those costs. I'm not a fan of increasing a loan balance with fees and paying interest on those fees.

One way around paying unnecessary fees is to refinance with a fixed-rate home equity loan. The application fee for a fixed-rate home equity loan is typically less than a couple hundred dollars versus thousands of dollars for a traditional mortgage. To be sure you understand the actual cost of refinancing, ask the lender for full disclosure up front of all fees, as well as whether they require an appraisal.

Refinancing with a fixed-rate home equity loan can help you avoid unnecessary fees.

Other advantages of refinancing with a fixed-rate home equity loan over a traditional mortgage:

- **The term is flexible:** You can choose whatever term you want. If you want to keep your monthly payments at about the same amount, you can use the lower interest rate to reduce the number of years until your loan is paid off.

There may be fewer requires for a home equity loan, which should move the process along faster.

- **If interest rates fall, you can refinance:** With traditional mortgages you want to minimize how many times you refinance because of the fees. With a fixed-rate home equity loan, fees are generally insignificant. A note of caution: When you refinance you're paying off the previous loan, so make sure your loan doesn't include a penalty for paying it off before the end of your term.
- **Rates don't have to move as much to make a fixed-rate home equity loan attractive:** With a traditional mortgage and associated closing costs, the interest rate has to move significantly to make refinancing reasonable. You can use a refinance calculator to determine when it makes sense. Given the low expenses associated with fixed-rate home equity loans, even a small move lower could make refinancing worthwhile.
- **Closing may be faster:** There may be fewer requirements for a home equity loan, which should move the process along faster.

Some additional items to be aware of:

- **Interest may be deductible:** If you itemize, you can deduct the interest you pay on a fixed-rate home equity loan, subject to the IRS limits.
- **Your rate could differ based on the loan amount:** Rates are typically lower on bigger loans, so make sure you know the rate for the amount you are looking to borrow.
- **You might not be able to escrow with a fixed-rate home equity loan:** If not, you will have to save for and pay the taxes and insurance instead of the bank making the payment from an escrow account.
- **Choose fixed over variable:** Make sure you are requesting a fixed-rate loan and not a variable-rate loan or home equity line of credit. Those rates may be lower at the time than your fixed rate, but as rates go up so will they.
- **Home equity rates are usually higher than traditional mortgage rates:** However, the difference can be made up easily by the saved closing costs. Also, make sure to shop around with different banks. Rates can vary significantly.
- **The percent borrowed may be lower:** Typically, you can borrow up to 80 percent of the current value of your home, though this may vary depending on the lender. You might also have an option to borrow more at a higher interest rate.
- **New loans have an impact on your credit score:** The longer your credit history with any loan, the better it is for your score. Every time you refinance, you start a new loan term. A new loan reduces the overall average length of your credit account history, which can negatively impact your credit score.

If you have questions about refinancing with a fixed-rate home equity loan, contact your HBKS® financial advisor. We can help you calculate whether this option makes sense for you. We'll run several scenarios to determine which loan will save you the most.

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