



Today's Refinancing Hurdles

Applications for refinancing that would not have encountered hurdles in years past don't go so smoothly anymore, as the real estate bust and economic downturn have created new obstacles for borrowers. If you're looking to refinance your home, here are some of the obstacles you'll face and some ways to overcome them.

Appraised Value

When housing prices were trending up, appraised value was seldom a roadblock to refinancing. Today, it's a different story. Appraisals are increasingly lower-than-expected, sometimes because values really have dropped, but sometimes it's because of changes made to the appraisal process aimed at ensuring impartiality. Many times appraisers are working in areas they aren't familiar with and that often means they're very likely to undervalue property.

The solution is to do your homework. Check with a trusted local real estate broker to analyze the recent sale prices of properties similar to yours in the area and check out nearby open houses. Armed with that information, you will have an idea about the real value of your home. Give that information to your loan originator who might be able to provide it to the appraiser. If need be, you may need to be prepared to challenge an appraiser who has overlooked key facts about your property and you may need to have a second appraisal done if the first is too low.

Condos

Of course, info on comparable sales might not always provide for a favorable appraisal and the problem is especially common with condos today. Where there are multiple foreclosures or short sales in a building, there's really no way to get that appraisal up above the selling price of those other condos.

Without equity, your only recourse may be to seek a mortgage modification. But if you still have equity, the best solution might be to go back to the lender that holds your mortgage.

You will likely have to pester them and make a lot of phone calls, but your current lender has the most to lose. Just stick to your guns and tell them you want a refi, not a modification. If you're persistent, you should be able to persuade them that a refi is in their best interest, too.

Lower Credit Score

While a low credit score has always been a barrier for borrowers, adjustments by credit card companies have had unanticipated results for many homeowners. When you got your mortgage, your credit score might have been fine, but today a change in your credit limit or a spike in the interest rate on a credit card can have a dramatic impact.

The drop may seem small -- 20 points to 30 points -- but it can make a big difference in the price you pay as a borrower or whether you're able to refinance at all. The key is knowing your credit score and working to improve it before you refinance. And, unfortunately, improving credit score will likely not be a quick process.

Sometimes it's as simple as calling and asking the credit card company to bring your credit limit back up. Other times, it might involve disputing false information. Regardless, it's important to think of improving credit as achieving incremental goals, because each 20-point jump could save you money or even get you qualified to refinance when you might not have qualified with the lower score.

1917 6th Street Kirkland, WA 98033

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