

When Refinancing Makes Sense (*And When It Does Not*)

If you haven't re-evaluated your mortgage recently, now might be the time to do it. Refinancing your home loan is essentially paying off your existing loan and obtaining a new loan at a lower percentage rate. Rates are at record lows, but what does that mean for your financial plan? Let's take a look at an example.

If someone with a \$200,000 mortgage currently has a 30-year fixed rate loan at a 5% interest rate and they are considering refinancing to a 30-year fixed rate at 4% interest, the monthly payments would drop by about 11% from \$1,073 to \$955. Over the life of the mortgage, the borrower would pay about \$37,000 or 12% less. It seems like an easy decision, right? Not so fast. Before proceeding with a refinance, there are several points to consider. They include evaluating the costs of refinancing as it can take years before you hit the break even point. Many lenders will say that a refinance makes sense only when the mortgage rate drops by 1% or more. Typically refinancing can cost you anywhere between 3% and 6% of the principal in fees and closing costs. If you have already refinanced your mortgage one or more times, be careful because you could be negating any benefits you receive by lowering your monthly payments. In addition, consider approximately how long you intend to live in your home. If you are planning to move within a few years, it is possible that the expense will outweigh the decrease in your monthly payments.

Another question we receive regularly at The Masters Group regards the prepayment of mortgage loans. From a financial perspective, if you have an extremely low interest rate and the economy is in a rising inflationary period, it generally does not make sense to prepay your mortgage. That is because you will be making future payments on the mortgage with inflated dollars. For example, if your mortgage payment is \$1,000 per month, in an inflationary environment, your payments will still be \$1,000 per month but in real terms will be worth less than the \$1,000 you pay today because of the loss of purchasing power from inflation. Thus, you will be paying off your mortgage with dollars that will be worth less than they are today. Of course it is always important to evaluate your personal situation to determine what is right for you. We would be glad to discuss that with you and help calculate the options to help you make the best decision.

-Tim Hawkins

Avoiding A Family Battle Over Inherited IRA's and 401(k)s

More and more Americans are utilizing IRAs and 401(k)s to save for their retirement. That's great news, however, as accounts have grown, so have the number of families feuding over who is entitled to the assets in the event of the death of the account holder. This is especially common in cases in which the account holder divorces or remarries. Federal law gives priority to the spouse...even if the account holder has listed his or her children as beneficiaries on the account forms. Some 401(k)s may require that a spouse sign a

waiver if they are not listed as the account beneficiary. Depending on your wishes, it is extremely important to be aware of your the terms of your plan. In addition, if you have changes in your family (death of a family member, or a divorce), you will need to review the terms of your accounts and update them to accommodate those changes.

Our Move Is Complete

We are now settled in our new offices at 1250 SW State Street, Ste E, Ankeny, IA 50023. Our phone numbers remain the same, (515) 964-9671 or 888-219-9843. We hope to see you soon!