

Should You Refinance Your Current Mortgage?

A Guide to Help You Determine If Refinancing Makes Sense for You

Because today's mortgage interest rates are very attractive, many homeowners find they can realize savings and/or free up cash for other purposes by refinancing their existing mortgage loans.

Knowing when and how to refinance isn't always easy. There are hundreds of lenders and many different types of mortgage products with different terms, and mortgage rates can fluctuate daily. Simply considering interest rates may not always indicate the right time to refinance.

At Morgan Stanley, we believe that managing your liabilities efficiently is just as important as managing your investment assets when pursuing your financial goals. We are a provider of traditional and innovative home financing products and services.

This booklet is designed to guide you in considering the many factors that will affect your individual refinance decision.

Should You Refinance?

Some homeowners refinance their mortgages to lower their monthly loan payments, and others want to shorten the terms of their loans. Some borrowers want to turn the equity they have in their homes into cash to pay off credit cards or other bills, or to purchase things like new home furnishings or a boat.

With mortgage interest rates in historically low territory, you may be wondering if refinancing might make financial sense for you. To help you find out, follow the steps outlined below.

Step One:

Ask Yourself These Important Questions:

Managing your debt should fit within the context of your overall financial plan. When considering refinancing your mortgage, it's best to start by asking yourself some important questions:

How long do I plan to live in this home, or how long do I plan to carry a mortgage? If you may relocate in a couple of years, taking advantage of mortgages offering the lowest rates now may make sense. Or, refinancing may not pay off at all.

Will I have a large expense to fund in the near future? If so, tapping home equity when refinancing may be a solution.

Will I have new, ongoing expenses to pay in the next few years? Extra monthly cash flow resulting from a lower mortgage payment could help fund tuition payments or elder care. Lower payments could also free up money.

How much of a monthly payment can I afford now and in future years?

Consider your expectations for your income; i.e., whether you expect it to remain relatively stable or to increase or decrease in the years ahead.

Do I want to accelerate pay down of the mortgage principal? If you wish to shrink the amortization period of your mortgage, you might want to consider an interest-only mortgage and pay additional principal to reduce the amount of time you would have to pay back the entire loan.

How much risk am I comfortable with? Consider your comfort level and ability to handle fluctuating rates and if you would be comfortable with fluctuating (and potentially higher) monthly payments or more at ease with fixed, predictable payments.

Step Two: Choose a Mortgage Program That Matches Your Objectives

An important part of the refinancing decision is selecting a mortgage product that best fits your objectives. Once you have answered the questions above, you will be better equipped to evaluate the mortgage best suited for you.

Fixed-rate mortgages. Traditional 15-, 30- and 40-year fixed-rate, fixed-term mortgages typically offer higher rates than adjustable-rate mortgages but provide certainty and predictability of monthly mortgage payments. If you are not comfortable with the risk of fluctuating rates and therefore payments or are unable to afford potentially higher monthly payments in an uncertain rate environment, a fixed-rate, fixed-term mortgage may be the right solution for you—particularly if you plan on being in your home for a long time. However, with a fixed-rate loan you do not benefit from falling interest rates because your initial fixed rate will apply.

Adjustable-rate mortgages (ARMs). These mortgages have rates that change based on an interest-rate index and typically offer lower initial rates to borrowers than fixed-rate mortgages in return for assuming this risk. As such, if you expect to live in your home for about five years or less, an ARM might appeal to you. You might also consider ARMs if you aren't troubled by fluctuating rates and have the means to cover potential increases in payments.

“Interest only” mortgages¹. As the name implies, you pay interest only in the early years—usually the first five to 10 years—of the 30-year loan. (While of course you are not obligated to pay principal in the interest-only period, many lenders will allow you to pay down principal without penalty.) Some interest-only loans offer an adjustable rate; others offer a fixed rate during the initial interest-only period and then an adjustable rate for the remaining years of the loan. The risk considerations discussed above would apply when evaluating these adjustable-rate options. Interest-only mortgages feature lower monthly payments during the interest-only period and can help you “afford” a more expensive home. You could consider these loans if you want to maximize current cash flow or believe your income is likely to increase substantially in the future.

Home Equity Lines of Credit. Home equity lines provide a ready source of cash by letting you tap into the equity in your home. As you go through the loan and approval process to obtain your new mortgage, consider establishing a home equity line at the same time. You can generally “piggyback” the loan paperwork, and you may choose a no-points, no-fees and no-closing cost option. Home equity lines of credit can provide funds to meet an unexpected opportunity or financial need at more favorable rates than personal loans or credit cards.² What’s more, the interest payments may be tax deductible.³

Step Three: Calculate the Potential Benefits

Now that you’ve determined your goals and know which type of mortgage product you are interested in, you’re ready to calculate the potential rewards of refinancing your current mortgage.

What would you save? Compare your current monthly mortgage payment (without taxes and insurance) to the proposed new monthly payment. Mortgage interest may be tax deductible.³ Don’t forget to consider the impact of taxes.

How much would it cost to refinance? Estimate the expenses you would incur in securing the new loan—such as the origination fee, points, application fee, title search-insurance, appraisal, mortgage recording fees and taxes, legal fees, etc. Note that these fees may vary by lender, and many fees (such as application fees, appraisals, title insurance) are not tax deductible. Points paid when refinancing may be tax deductible on a prorated basis over the term of the loan.

How long will it take to recoup your costs? Once you have determined your total after-tax costs, divide this amount by your monthly mortgage payment savings to find the number of months required to recoup the expenses.** Please refer to the accompanying worksheet on the reverse side.

We’re Here to Help

As with most financial decisions, when it comes to choosing the right mortgage alternative and making the refinancing decision, there is no simple “one size fits all” answer. Your Morgan Stanley Financial Advisor, supported by a Morgan Stanley Home Loans expert, can help you assess the alternatives in light of your personal situation to determine the solution that is best for you.

How Much Would You Save?

- a. Current monthly mortgage payment \$ _____
- b. Subtract any escrow amount
(for taxes and/or insurance) \$ _____
- c. Actual monthly mortgage payment \$ _____
- d. Proposed new monthly mortgage payment*
(without taxes and insurance) \$ _____
- e. Monthly mortgage payment savings (c-d) \$ _____
- f. Savings over the life of the loan
(multiply line e by number of payments:
Line e X number of years X 12 months) \$ _____

How Much Would It Cost to Refinance?

- Application fee \$ _____
- Origination fee \$ _____
- Discount points \$ _____
- Title search/examination \$ _____
- Title insurance \$ _____
- Closing fee \$ _____
- Mortgage recording fee \$ _____
- Mortgage recording taxes \$ _____
- Legal fees \$ _____
- Other \$ _____
- Total costs \$ _____

How Long Would It Take to Recoup Your Refinance Costs?

- a. Total cost to refinance \$ _____
- b. Monthly mortgage payment savings \$ _____
- c. Number of months it would take to recoup
the cost to refinance (divide line b into line a)** \$ _____

* The computations do not take into account the fact that the interest component of your monthly payment may be tax-deductible.

** Rule of thumb: If you can recoup your costs in 12 months or less, you may want to consider refinancing.



Thank you for your interest in Morgan Stanley Home Loans. For more information, or if you'd like a loan professional to call you, please contact the Financial Advisor listed above. Or, call the Morgan Stanley Home Loans Preferred Service Loan Center directly at: **(800) 473-5584**.

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- ¹ Interest-only loans enable the borrower to have to pay monthly payments of only interest on the loan during the interest-only period. Once that period ends, they must make monthly payments of principal and interest for the remaining loan term, and payments will be substantially higher than the interest-only payments. During the course of the interest-only period, the total interest that the borrower will be obligated to pay will vary based on the amount of principal paid down, if any. In many instances, such as where the borrower makes only the interest-only payment, but no payment of principal, the total interest payable by the borrower during this period will be greater than the total interest that the borrower would be obligated to pay on a traditional loan of the same interest rate having principal-and-interest payments. In making comparisons between an interest-only loan and a traditional loan, borrowers should carefully review the terms and rates of the various loans available in the context of their financial circumstances and risk tolerance.
- ² **Funds drawn are not to be used to purchase, trade or carry marketable securities.**
- ³ Morgan Stanley and its Financial Advisors do not provide tax or legal advice. Consult your personal tax advisor for tax-related matters and your attorney for legal matters.

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