



“Net Tangible Benefit”

I would like to take this time to introduce myself. I am Nathan Durst, Director of Residential Mortgage Lending here at Princeton State Bank. I am a graduate of Dunlap High School in 1993 and a University of Illinois graduate in Agricultural Economics in 1997. I have been in the mortgage industry for 14 years as a mortgage banker. Mortgages seem to be an important topic over the last year and will continue to be an important part of the US economy. With all the changes in the mortgage industry, we are seeing more restrictions and guidelines that will help stabilize the housing market over time. Lenders are now more than ever requiring more documentation to approve loans along with verifying loan applicant information to determine a borrower's ability to repay loans. Income, credit history, ratio analysis, equity, assets, and down payment are important factors in determining a borrower's ability to repay a loan.

One important topic or buzz word in the mortgage industry is “Net Tangible Benefit to Borrower.” With mortgage interest rates near historic lows, there are factors that may help you determine if refinancing is right for you. With all the changes in the mortgage industry, most lenders run a Net Tangible Benefit test on each loan to see if refinancing is a financial benefit to a borrower. Here are four areas of Financial Improvement that lenders look at to determine if refinancing makes financial sense.

Interest Rate Reduction

Lowering your current mortgage interest rate may save you thousands of dollars over the life of your mortgage loan. Depending upon your loan amount, lowering your interest rate by 1.00% is a good rule of thumb.

Mortgage Payment Reduction

Reducing your current mortgage payment by either removing private mortgage insurance or reducing your rate of interest to lower your principal and interest payment is a net tangible benefit to you. Reducing your mortgage payment by \$100.00 per month is good benchmark.

Mortgage Term Reduction

Lowering your mortgage term may help you lower the total of payments that you pay over the life of your mortgage loan. Decreasing your rate of interest and lowering your mortgage term may increase your payment, but the total you pay over the life of the loan may save you thousands of dollars of interest.

Total Monthly Payment Reduction

For example, combining your first and second mortgage into one mortgage may lower your payment or allow you to receive one low rate of interest on your total mortgage balance. Additionally, paying off higher interest credit cards can help you reduce your payments and increase your cash flow. Debt consolidation will depend upon the amount of equity in your home.

Other factors that can determine if you should refinance are *how long you plan on staying in your home*. Typically, the fewer number of years, the wider the interest rate savings needs to be. *How much time and money will it cost to refinance?* Again, that will depend on your specific financial profile. Applying for a refinance loan involves a process similar to getting a home purchase mortgage, and you will be charged certain fees. Should you choose an ARM or a fixed-rate mortgage? Some ARMs adjust annually, either up or down. So even at a below-market start rate, it's possible your ARM interest rate could soon exceed current interest rates. If you plan to remain in your home for a short period, an intermediate ARM, with a lower introductory rate that remains fixed for several years before the first adjustment, may be suited to your needs.

I encourage you to e-mail me at ndurst@p-s-b.com or call me at 309-693-9494 ext 404 if you have interest in other topics pertaining to the mortgage industry.



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