



# THE LAMPPOST

*Lighting the Way in Finances and Life*

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## When Does it Make Sense to Refinance?

As interest rates have plummeted to record lows, mortgage companies have been flooded by phone calls from homeowners wanting to refinance.

When I receive one of those calls, the first question I always ask is, "Why?" Some of the most popular reasons that homeowners want to refinance are as follows:

- To reduce their mortgage to a lower interest rate and/or shorter term
- To escape from an adjustable rate mortgage
- To consolidate debt
- To reduce a their mortgage payment
- To get cash for home improvements or large purchases

Once I know why someone wants to refinance, I address the issue, "Does this make sense?" Depending upon the goals of a homeowner it doesn't always make sense, or in some instances, may be impossible to do.

For example, if a job relocation or career change may happen within the next 3 years, the expense required to refinance may not be justified within a short period of time. I also try to find out how long a homeowner intends to live in their home. As a general rule, I recommend that the cost of refinancing should be made up within 2-4 years - depending upon how long a homeowner intends to stay in the property. I always advise that homeowner's should plan to live in their home for a minimum of 4 to 5 years before they move again. Otherwise, they are just throwing their money or equity away.

One of the more popular refinance strategies I have implemented has been to lower the interest rate and payment and use the monthly savings to fund a "mortgage reduction account". This can be done in conjunction with a financial advisor who takes the monthly savings and invests it in a diversified investment plan. The idea is to

earn more interest in the investment program than what a homeowner would be paying down on their mortgage. With mortgage rates at record lows, earning more interest from an investment than the interest you earn on your money over the long term shouldn't be too difficult to do. If you can't stomach investing in this environment, using the monthly savings to just pay down your mortgage can reduce a new 30 year mortgage to 20, or even 15 years, and still give you payment flexibility if you experience a temporary cash flow crunch.

In some circumstances a homeowner's property has lost so much value that they don't have enough equity to refinance. This can be difficult to determine up front since most property values have dropped over 25% over the last two years in the Twin Cities Metro. Although the process is time consuming, there are several online resources I have available to determine a property's approximate value and determine if there is enough there to refinance.

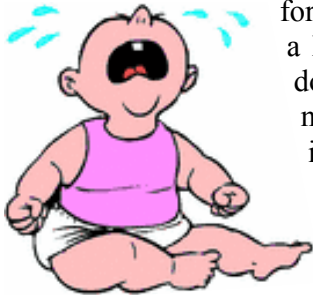
Another roadblock to refinancing has been credit tightening by lenders. Higher credit standards and equity requirements have made refinancing very difficult for many homeowners. Even the much touted Making Home Affordable Refinance program that the government rolled out several months ago has not helped the number of homeowners that was originally hoped. Although Fannie Mae and Freddie Mac have adopted these new guidelines, many investors have made their own rules and shut out many homeowners who could benefit from this program.

Refinancing in this current economic and real estate environment can be confusing and frustrating when dealing with declining values, tighter (and constantly changing) underwriting standards and rapidly changing interest rates. If you're wondering if refinancing is right for you, or if you even qualify, please call my office to set up a phone or office consultation.

# Oh, Those Darn Kids!

As I flew home from California last month I sat behind a couple who had a little boy about a year old. He was a cute little guy until the plane started moving and, he started to scream. Any parent who has ever been on a plane can attest to two conflicting emotions. One says, – “Oh those poor parents!” and the other, “Why don’t they do something about that kid!”

I’ve been in these parent’s situation. My kid once screamed at the top of his voice during take-off, “STOP! STOP!!! WE’RE TIPPING OVER, WE’RE GOING TO CRASH!” Then only to declare, “Hey, this is fun,” when we got to cruising altitude. My mind then began to play a long and ever lengthening stream of clips from my parenting life. There was the time when one of my boys, in a jealous rage over his brother’s new shoes, threw one of his sneakers in a garbage can at the mall while Eloise wasn’t looking. She noticed his shoeless foot while buckling him into his car seat and then had to unbuckle all the kids, drag them back into the mall and go through every the garbage can as the guilty-party screamed. There was the time one kid pushed another into the backyard pond moments before we had to leave for the airport. Oh, and the time a kid scraped his bicycle pedals down the length of my brand new car as he squeezed past it in the garage. As I watched the screaming baby and his struggling parents, I began to wonder why I gave up my life of independence and freedom to



be shackled into 18-25 years of changing disgusting diapers, getting shocked awake in the middle of the night by a puking toddler, putting up with rebellious children who say “no” into infinity, becoming a referee for bickering and brawling siblings, being verbally assaulted by a teenager whose wit and cunning knows no boundaries, letting them go out and wreck my cars, and then saddling me with college debt until I’m 97? AM I INSANE????

But then God pulled me back from the brink with this brilliant revelation.

Once we think we have “arrived” as adults, He gives us the “Bring Us Back Before Arrival” (BUBBA) factor. The BUBBA factor is the very thing that keeps most adult human beings from getting too big for their britches. It puts us in our place and causes us to become gluttons for punishment. We become wired for abuse. And then a wonderful thing happens – we actually begin to grow as human beings.

Where else would we learn true love without learning how to love “our enemies”?

How would we ever learn patience and self-control without ever being tested by irrational children who seem to have limitless energy? How would we ever experience humility without being humiliated by a teenager who knows more than we do?



Where else would we get wisdom without being forced to pray to God for sanity and insight while a screaming child is throwing food all over the kitchen? Parenthood is the very tool that God uses to keep us from becoming too full of ourselves.

For those of us who do it well, we lose our hair, our sleep and our money. We give it all away for the sake of those little rascals whose main mission in life is to stick it to mom and dad. And boy, are we happy to take it!

During the early years of parenthood I seriously wondered what I was thinking when I wanted to become a parent. I had no idea what I was getting into. Years later, as my children have started to become young adults, I realize that I needed them as much as they needed me.

If it wasn’t for the BUBBA factor, I wouldn’t be the person I am today.

The guys who fear becoming fathers don’t understand that fathering is not something perfect men do, but something that perfects the man. The end product of child raising is not the child but the parent.

~Frank Pittman, Man Enough

In spite of the six thousand manuals on child raising in the bookstores, child raising is still a dark continent and no one really knows anything. You just need a lot of love and luck - and, of course, courage.

~Bill Cosby, Fatherhood, 1986