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## FINANCING

# Re-fi wisdom costs many money

**By Marilyn Kennedy Melia**

Special to the Tribune

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From academics to bankers, someone's always thinking about how owners can wring more money from their homes. Some work better than others:

\* The familiar refinancing rule is costing homeowners money, say researchers. Most financial advisers tell owners to compare the upfront charge to refinance with how much they'll save in lower payments over the time they expect to stay in their home.

It's a relatively simple calculation, and that's the problem, says Sumit Agarwal, an economist at the Federal Reserve Bank of Chicago.

Agarwal, along with colleagues at the Fed and Harvard University, recently studied how homeowners who refinanced based on the rule were losing money.

That's because the rule fails to consider many variables, like how much interest rates might drop in the near future. Unfortunately, those calculations are too complicated for many homeowners.

But there's a simple take-away for owners when refinancing from one fixed-rate mortgage into another: Wait until there is about a 1 point difference between your current rate and the new one. The smaller your loan, wait for even bigger differentials -- approaching 2 points for loans less than \$100,000.

Earlier this decade, many owners refinanced when rates moved down only a fraction. Then, they missed catching rates as they fell even further. Someone with a \$300,000 mortgage may have lost as much as \$50,000 in potential interest savings, the study finds.

\* "Someday, this house will really be worth something." A San Francisco company aims to tap homeowners who don't want to wait for "someday."

Thomas Sponholz, founder of REX & Co., says it has a new approach to give homeowners money they don't have to pay back as they would with a second mortgage. REX wants a share of the profits when they sell their home.

Don't confuse this with a reverse mortgage, says Sponholz. For one thing, only seniors qualify for reverse loans, and lenders charge a stated interest rate on reverse mortgages for another.

REX won't charge a specific interest rate on its advances but will capture a specific percentage of the increase in value when the owner sells.

REX might advance \$100,000, for instance, on a home appraised at \$500,000, for a 50 percent share of the change in value when sold. If seven years from now the owners sells for \$700,000, REX gets its \$100,000 advance back, plus one-half of that \$200,000 gain.

Owners who move within five years face an early exit fee, and REX will advance money only to owners of single-family homes with certain characteristics.

Illinois is the one Midwest state in the REX & Co. launch of the program, explained at [www.rexagreement.com](http://www.rexagreement.com)

The Illinois Real Estate Lawyers Association advises owners to consult with a lawyer before signing any contract that puts a new lien on their property -- even a routine refinancing.

\* Big bushes and showy plants sprout more value here. Because Midwesterners suffer long, gray winters, homeowners who invest in landscaping that provides large splashes of green can see their home price boosted by nearly 12 percent, says Bridget Behe, lead researcher on a Michigan State University study on how much high-quality landscaping can add to a home's value.

Though the study didn't include the Chicago market, Behe says the results from asking Detroit consumers to assign a value to "before" and "after" landscaped suburban homes are applicable here. The researchers also studied six other markets, mostly in the South.

Quality landscaping boosted home value by just 5 percent in some places, and consumers outside the Midwest valued aspects such as sophistication of design (like curved, cut-out beds) more than big plantings.

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