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Why You Should Refinance

If you are a homeowner, you have probably heard lots of talk about the popular loan option called refinancing. To refinance means to take out a brand new loan that will completely pay off your original mortgage loan. This may sound like a strange idea, but there are actually many, many reasons why a homeowner would want to refinance into a new home loan.

One of the most popular reasons for refinancing is to get out of a high interest rate, high monthly payment loan. Some homeowners have to settle for a less than ideal original mortgage loan because of bad credit, the lack of a sizeable down payment contribution, or perhaps simply because the market rates were very high at the time. Once these borrowers have rebuilt their credit through timely mortgage payments, have saved up enough for new closing costs, or the market has brought average rates much lower, they can apply for a new home loan with a lower interest rate than their original loan carried. That will translate into lower monthly payments and less interest over the long run.

Another very trendy reason for refinancing these days is to pull out extra cash for various financial needs. This option is often called a cash-out refinance. It means getting a new loan that will be large enough to pay off the original loan plus take some cash home with you for that remodeling project or to pay for your daughter’s upcoming wedding. For example, if you had $150,000 left to pay on your original mortgage, you could get a new loan for $175,000. After paying off the mortgage loan, the new loan leaves you with $25,000 that you can put toward college tuition or that new business venture. If you have a big, one-time expense coming up, refinancing will generally be a better option for you than a home equity loan.

Other homeowners that have already taken out other loans on their homes, like second mortgages, may want to refinance to consolidate their first and second mortgages into one. This will make for only one monthly mortgage payment instead of two and may even reduce the interest rate and payment for these borrowers under heavy debt burdens. Those in this situation can also choose the option to pull out cash from their consolidating refinance loans.

Similarly, there are those who have previously opened home equity lines of credit (HELOCs) in order to satisfy other financial demands. These homeowners can create a new loan with a new lender to pay off both their original mortgage and the money they have borrowed through their home equity.

Some borrowers may wish to shorten their home loan term and reduce their overall costs. In this case a refinance loan would be helpful because these homeowners could pay off their original loan that was to last for 30 years, and get a new loan that they can pay back within 15 years, for example. While the monthly payments may be more, in the end a shorter loan will significantly reduce their interest costs and the total cost of the loan. There are several other reasons why a homeowner may want to refinance. If you feel like you fit into any of these categories or if you think there may be another good reason for you to refinance, talk to a trusted mortgage professional or your financial advisor to discuss the possibility. You might just end up saving yourself thousands of dollars!