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More Reasons to Consider Refinancing

A refinance loan can be a great way to save money on your current mortgage. It can also be a great way to save money in other areas of your finances. You may already realize that a home refinance mortgage can save you in interest charges and monthly payments. You may also know that refinancing can save you from facing the payment shock of an adjustable rate loan (ARM.) Yet there are still several other ways that a refinance loan might help you save now or in the future. You should consider getting into a new home loan if any of the following options appeal to you.

Pay Off Your Mortgage Faster

If you have found that you have the financial ability to be making larger payments each month than you do currently, you may want to consider refinancing in order to pay off your loan faster and save yourself in interest costs. Consider the savings: if you currently have a 30-year fixed loan for $150,000 at 6% you will end up paying approximately $174,000 in interest over the life of the loan. Let’s say you have been in your home for 5 years and your loan balance is now roughly $139,000 and you have paid about $42,000 in interest to this point. If you were to now refinance into a 15-year fixed loan at 6% for the remaining $139,000, when your mortgage is completely paid off you will have only paid about $114,000 in interest - $42,000 from your first loan and $72,000 from your refinanced loan. That means that you will have saved yourself about $60,000 total in interest fees! Investing that amount of savings could go a long way towards your retirement or other financial ventures. The key is to have the discipline to actually invest the saved money instead of squandering it on other purchases.

Pull Out Some Much-Needed Cash

You can also get a new loan in the form of a Cash-Out Refinance. This means that you get a new home mortgage that is large enough that it entirely pays off your original balance and allows you to pull out extra money in cash. You can use this money for anything you want, but the best uses will be necessary or productive expenditures, like home improvements, college tuition or other big life events. This way you do not have to take out other loans for these items, loans that would likely have higher interest rates and no tax deduction benefits.

Consolidate Your Debts

Refinancing your home mortgage could save you money in other, less obvious ways. If you are currently carrying a lot of debt on credit cards or in other forms of revolving credit you may be paying extremely high interest rates as you try to bring the balances down. Today mortgage interest rates are usually much lower than credit card rates which can be in the double-digits. By getting a refinance loan that is larger than your current mortgage debt, you can pull out extra money in order to pay off your debts. Now all of your debt is rolled into your monthly mortgage payment with one (hopefully) lower rate. You also benefit from the fact that mortgage interest is tax deductible whereas other forms of debt are not. Just make sure that when you refinance you are ready to change any bad financial habits that got you into the heavy debt in the first place!

Before you jump into a refinance loan, you should of course calculate the upfront costs and compare them with your long-term savings. Don't be afraid to consult with a mortgage professional to help you figure out if refinancing makes sense for you!

