Home Refinancing-Making The Right Choice

Homeowners it seems are forever on the lookout for ways to cut down on their bills. And home refinancing has become the method of choice for many. But be careful before you jump into any deal. There are times when refinancing can end up costing you more than you save on your monthly bills. Let's begin by examining when a new loan makes sense.

Clearly the first thing to look at is your current mortgage. If you have an adjustable rate, a fixed rate loan at a low rate can normally save you money in the long run. Adjustable rate mortgages are good if you get your loan when rates are high, but in current rate environment they just don't make sense. If you can lock in a low rate, you will clearly save money over the length of the loan. When rates go back up, and they always do, you'll still have a great rate on your loan.

Another good time to refinance is if you have a balloon payment that will be due soon, and you simply don't have the funds available. Finally, if your current mortgage has a rate higher than the current market, then seriously look into refinancing. Even a savings of 0.25% can make a huge difference over the course of a 30 year loan.

Of course that all sound great but naturally there are some things to look out for as well. Carefully examine the closing costs. Refinancing is not free and some of the costs associated with it can be pretty significant. Once you know the costs, do some figuring to determine how long it will take to to recover that money from the savings you see each month.

The reason this is so important is because people rarely stay in one house for the duration of their loan. If moving is something you might be doing in the near future, you're simply giving away money. You should be reasonably sure you'll be in your current house at least long enough to make up what you spend in closing costs.

Also determine if your new loan has a pre-payment penalty. Most of them will, at an average cost of 2-5 years. This can hurt your bank account in two ways. Again if you are moving and will be taking out a new loan, or if you simply decide you want to pay it off early. Either way, you have to consider the money you will spend in penalties and compare it to how much you are saving monthly.

Lastly, be sure to take a close look at your monthly payment. Even with a lower rate your payment could go up if you plan on taking advantage of a cash out option. Sure you'll have more money in your pocket right now, but your new loan will now have a higher balance. So even at a lower interest rate your payment could go up. Of course if the new rate is much lower, your payment may be lower even with a higher balance. This is a good situation to be in. You'll have cash in your pocket and be making lower monthly payments as well.

The bottom line is that home refinancing can be extremely beneficial to your bank account, but it can also jeopardize your financial health if you make a deal under the wrong conditions or at the wrong time. Weigh out the fees, costs and potential penalties against your monthly savings. If you see this will work, then begin shopping for a lender. Don't just take the first offer you get because there are a wide variety of terms and rates available. And be sure to get recommendations from friends and relatives as well. They've been through the process and can let you know if their lender is easy to work with.

Do this right, and it's like money in the bank. Do it wrong, and you could be paying for years to come.

About the Author

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