



Top Things To Know Before

REFINANCING YOUR HOME

Learn how refinancing works – its benefits, risks, and alternatives.

Are you thinking of refinancing your home? If you have a mortgage, there is a good chance you've been approached by your current lender with offers to refinance ¹ your home. Even if your current loan payments are affordable or you've only been in your home for a few years, refinancing may be a good idea. ²

Paying a home loan can be really challenging, let alone making a payment with high interest rates and an unstable economy. According to the *Beginners Guide To Refinancing Your Mortgage*, the danger in refinancing lies in ignorance. Without the right knowledge it can actually hurt you to refinance, increasing your interest rate rather than lowering it. ³

You may want to consider these things when refinancing your home. Learn how it works, its benefits, risks, and alternatives.

1. <https://selfi.com/why-your-lender-wants-you-to-refinance>

2. <https://www.guildmortgage.com/top-10-reasons-refinance-home>

3. <https://www.mortgagecalculator.org/helpful-advice/what-is-a-refinancing.php>

REFINANCING: IS IT A GOOD IDEA?

Refinancing your home can be a good idea depends on your reason why you're doing it in the first place. Investopedia states that one of the best reasons to refinance is to lower the interest rate on your existing loan. Historically, the rule of thumb is that refinancing is a good idea if you can reduce your interest rate by at least 2%. However, many say that 1% savings is enough of an incentive to refinance your home. ⁴

4. <https://www.investopedia.com/mortgage/refinance/when-and-when-not-to-refinance-mortgage>

REFINANCING: IS IT A GOOD IDEA?

"Sounds great. How does it work, then?"

To understand the term simply, The Balance, an online finance property, explained Refinancing as "the process of replacing an existing loan with a new loan that pays off the debt of the old loan."

Additionally, the new loan should have better terms or features that improve your finances. However, the details depend on the type of loan and the lender, but the process typically looks like this:

Step 1. Decide if you would like to improve your existing loan

Step 2. Find a lender with better loan terms and apply for the new loan

Step 3. The new loan pays off the existing debt

Step 4. Make payments on the new loan until you pay it off or refinance it.⁵

5. <https://www.thebalance.com/what-is-refinancing-315633>

REFINANCING: IS IT A GOOD IDEA?

Sounds simple, right?

Wrong.

Before going into the actual process of refinancing your home, you have to identify your goals, reasons, and asses if refinancing is right for you.

WHY REFINANCE A HOME

There are several reasons why people consider refinancing a home. It can be time-consuming and expensive but some homeowners choose to refinance because of the following benefits:

Lower payments. Who doesn't want lower payments? According to a study from the National Bureau of Economic Research, an average homeowner may save \$160 or more per month with a refinance.⁶ Two options to ease your payment is by refinancing to a lower interest rate or extending the length of your loan.⁷

6. <https://www.cbsnews.com/news/the-surprising-savings-from-mortgage-refinancing>

7. <https://www.guildmortgage.com/top-10-reasons-refinance-home>

WHY REFINANCE A HOME

It can remove Private Mortgage Insurance. Those with enough property appreciation or principal paid off will not be required to pay private mortgage insurance (PMI) which will reduce the monthly payment.⁸ Supporting this, realtor.com mentioned that “Refinancing to a loan without mortgage insurance can save you hundreds of dollars each month, but you’ll need to have at least 20% equity in your home to qualify.”⁹

You can get a different type of mortgage. If you have an adjustable-rate loan that is higher than available rates, you may want to consider changing your loan type to a fixed-rate by refinancing.¹⁰

You can decrease your loan term. In order to pay off a home faster and save money in interest payments, some people opt to reduce their loan term from a 30-year loan to a 10, 15, or 20-year loan.¹¹

8. <https://www.pennymacusa.com/refinancing/how-refinancing-works>

9. <https://www.realtor.com/advice/finance/how-to-refinance-a-mortgage>

10. <https://www.guildmortgage.com/top-10-reasons-refinance-home>

11. <https://www.realtor.com/advice/finance/how-to-refinance-a-mortgage>

WHY REFINANCE A HOME

Takes home equity. Another reason why a lot of people refinance is because they want to tap the home's equity to take out cash. With rising home values, you may have enough equity to take out a cash by refinancing into a larger loan amount than you currently owe.¹² However, GuildMortgage reminds that you are reducing the equity in your home when you take out some of the value in cash.¹³

"So... Should I refinance?"

The answer to that question definitely lies in your current and expected financial situation, and *right timing*.

12. <https://www.pennymacusa.com/refinancing/how-refinancing-works>

13. <https://www.guildmortgage.com/top-10-reasons-refinance-home>

WHEN AND WHEN NOT TO REFINANCE YOUR HOME

While financing is dramatically increasing over last year, that doesn't mean it's always a smart move. Knowing when to refinance your home is the trick.¹⁴

"How can I know when is the right time?"

According to Greg McBride, the chief financial analyst for Bankrate, "If you can shave one-half to three-quarters of a percentage point off your mortgage rate by refinancing, you should look into it. Just be sure the cumulative savings on monthly payments is enough to offset the costs of refinancing. If you're planning on moving in the next year or two, it might not."¹⁵

WHEN AND WHEN NOT TO REFINANCE YOUR HOME

The advise basically supports these two of the most common deciding factors when to refinance a home:

You have a good credit standing. PennyMac USA states that your credit score not only helps determine your mortgage refinance approval, but also determines the interest rate your lender is going to offer. Simply put, the higher your credit score, the lower your interest rate is going to be.¹⁶

16. <https://www.pennymacusa.com/refinancing/how-refinancing-works>

WHEN AND WHEN NOT TO REFINANCE YOUR HOME

You plan on staying in your home for several more years. In most cases, it only makes sense to refinance if you plan on staying in your home for several more years. If you may sell the property soon, don't refinance.¹⁷ Determine how the new loan will affect your financial situation. PennyMac further explains that it is important to determine how long it will take to reach your "break-even point" when refinancing a mortgage. The break-even point is the point at which the monthly savings created by a mortgage refinance offsets the cost of refinancing.¹⁸

17. <https://www.moneyunder30.com/what-to-consider-before-refinance-mortgage>

18. <https://www.pennymacusa.com/refinancing/how-refinancing-works>

NOW, WHAT DO I DO?

Regardless of your goal and reason, the actual basic steps of refinancing your home basically works much in the same way as when you applied for your first mortgage— research your loan options, collect and prepare the right financial documents and submit a mortgage refinancing application before you can be approved¹⁹ — but at the same time, it also requires a new underwriting process: the bank needs to see that the home is worth more than the loan value, that you earn enough to afford the monthly payments, and that you are in good credit standing.²⁰

19. <https://www.pennymacusa.com/refinancing/how-refinancing-works>

20. <https://www.moneyunder30.com/what-to-consider-before-refinance-mortgage>

NOW, WHAT DO I DO?

Most of the time, it makes the most sense to refinance with the original lender but keep in mind that it is not required that you stay with them for the refinance. However, in the lender's point of view, it's relatively easier to keep a customer than to make a new one, so many lenders do not require a new title search, property appraisal, and such. Usually, these lenders will offer a better price to borrowers looking to refinance. So odds are, a better rate can be obtained by staying with the original lender.²¹

Like any other purchases, shop around, get a few quotes, and find the best rate and terms for refinancing a home.

21. <https://www.mortgagecalculator.org/helpful-advice/what-is-a-refinancing.php>

RISKS AND ALTERNATIVE

There's a level of risk in everything we do. Refinancing your home at this time may not be a good idea after all. As highlighted by The Balance, depending on your situation, refinancing can either save you money or cause a variety of problems. While the lure of lower interest rates and smaller monthly payments makes sense at first glance, it's crucial to understand all the potential risks involved.²²

22. <https://www.thebalance.com/when-home-mortgage-refinancing-is-not-a-good-idea-315679>

RISKS AND ALTERNATIVE

Originally published by MyMax, a full-service financial institution, listed are the risks that come with refinancing a home:

High closing costs. If you focus only on the interest rate of a new mortgage, you're missing the overall picture. Closing costs can be as low as hundreds of dollars and as high as several thousand dollars. To make sure you'll save money, you have to compare rates, terms, closing fees and points.

Lost value. Not all homes go up in value, so if yours has not, or if it has lost value, a refinancing appraisal will reflect this and will affect the rates and terms lenders will offer you.²³

23. <https://www.mymax.com/learn-and-plan/advice-articles/understanding-the-advantages-and-risks-of-refinancing>

RISKS AND ALTERNATIVE

Not reading or understanding the loan

documents. When it comes time to close on your new loan, there could be more than 50 pages of important legal documents for you to sign. It is important to carefully read them and make sure there are no inaccuracies or mistakes that could end up costing you a lot of time and hassle to correct later or worse, cost you money.²⁴

24. <https://www.mymax.com/learn-and-plan/advice-articles/understanding-the-advantages-and-risks-of-refinancing>

RISKS AND ALTERNATIVE

Might not be the right time yet? Check this alternative.

A Mortgage Recast is very similar to refinancing but with a few key differences. With a mortgage recast, you are going to be working with the same lender throughout the process unlike with a refinance where you could potentially shop around and get a mortgage from another lender. In a recast, there are not going to be closing costs that you will have to come up with.²⁵

25. <https://www.mortgage101.com/article/mortgage-recast-alternative-refinancing>

WHAT IT TAKES

Refinancing your home lets you save money or tap equity. However, it may not be for everyone.

Still not sure if you should refinance? Run the numbers, look at your own situation, and decide if refinancing your home is going to be worth it in the long run.