

7 CRITICAL THINGS YOU MUST KNOW BEFORE REFINANCING YOUR HOME!

Refinancing your home – everyone’s doing it! Everywhere you turn, there’s someone talking about refinancing; when they refinanced their home, how their parents refinanced their home, when are you going to refinance your home ... and so on.

If everyone’s doing it, it must be the right thing to do ... right?

Refinancing your home does have some benefits, there’s no doubt about that. After all, if it didn’t, it wouldn’t be such hot news.

But does that mean that there’s nothing for you to think about or consider, that you should just run right out and sign up for the fastest and easiest refinancing deal you can get? Refinancing is like a windfall of cash from your home, right?

Absolutely not. Refinancing your home is a legal contract and a debt that you’re entering into, and one that should be done only after you’ve given it some thought, time, and attention. There have been many homeowners who have made that mistake, of rushing out to sign the first refinancing deal they can, only to regret it later when they realized just what they had done.

Why is that? What information did they miss or refuse to consider?

If you don’t want to make the same mistake they did, if you want to be sure that refinancing really is the best deal for you and your family and your unique financial situation, here are seven critical factors about refinancing that you must consider first:

1. What it means to refinance

Refinancing your home means setting aside your original mortgage in order to sign a new one; this new mortgage amount would include the balance on your current mortgage plus its own interest amount.

When refinancing, you are basically asking the bank to set aside your current mortgage and then loan you the money you currently owe on your home all over again. So, if you originally borrowed \$150,000 for your home purchase and since then have paid enough so that you currently only owe \$100,000 on your mortgage, to refinance means to set aside that original loan and ask the bank to lend you that \$100,000 as a fresh loan.

This is important because many people think that refinancing is like a home equity windfall, where you adjust your current mortgage to get cash in your pocket from your home's equity.

This just isn't correct. Refinancing is a completely new mortgage that replaces your old one.

2. Not everyone is eligible to refinance

Your original mortgage that you currently have on your home is a legal contract that you've entered into, obligating you for the life of that loan. Not every bank or lending institution even allows for you to set that loan aside and find a new mortgage.

Additionally, refinancing into a new mortgage also has qualifications that come with it, including credit history, the home's value, and so on. Some people have found that their poor credit history has made them ineligible for refinancing, or for refinancing at a lower interest rate than what you have currently. As with other loans and even your original mortgage, the better your credit history, the lower the interest rate you are offered. If you still have poor credit, you might not be eligible for an interest rate that's any better than what you currently have.

To think that you're automatically eligible for refinancing without first checking with your current mortgage holder to see if you can even set aside this original mortgage, or if your credit history is adequate, would be a mistake. It will save you a lot of time and effort if you first check with your current mortgage holder regarding their policy on refinancing, and do some checking on your own credit score as well.

3. There is often a penalty involved

When you realize that refinancing means setting aside your original mortgage, you may naturally ask why your bank would allow you to do that. Won't they lose money in the interest that you would continue to pay for the life of that mortgage?

The answer is yes, they would lose money. Which is why most banks have a stiff penalty for anyone that wants to pay off their mortgage early or refinance with another lending institution.

And sometimes this penalty can be steep. It's usually figured as a percentage of your current mortgage, so if the principal amount that you still owe is quite high, this penalty will be rather high as well. If you're not sure if your current lender includes a penalty for early payment, don't hesitate to ask them directly.

4. There are fees and closing costs that come with refinancing

Remember when you signed your original mortgage, and you had to pay a number of fees – credit check, appraisal fee, home inspector's fee, processing fee, title search, title insurance, and so on?

All of these fees and costs are also tacked on when you refinance. And as with the penalty for early payment, sometimes these fees can be very high as well, even into the thousands of dollars.

5. It doesn't always save money

Consider the information we've given you already, about penalties and fees associate with refinancing.

Many people have found that when they add up all these costs, they really are not saving any money with refinancing, at least not right away.

Most lending institutions refer to a “break-even point.” This means how many months it takes of paying a smaller mortgage payment before you’ve saved enough to cover, or break even, from these penalties and fees.

To figure if you would really save money on a new mortgage, you would need to add up all the potential fees, penalties, and costs with refinancing. Then, you can take the amount of money you would save every month with your new mortgage, and divided those costs by this number, and that will tell you how many months it will take before you break even.

Let’s give you a quick example. Suppose your penalties, closing costs, and other fees add up to \$3,000.

Suppose your current mortgage payment is \$1,000. With refinancing, your new mortgage payment will be \$850. This means you would be saving \$150 per month.

\$3,000 divided by \$150 is 20; it would take you 20 months (almost two years) to just break even from your penalties and fees.

Obviously your own numbers would be different, but it does give you some information to think about. If your savings per month will be even less and your costs even more, and it takes you years to just break even, is it worth the time and hassle to go through refinancing in the first place?

6. It can actually save you thousands of dollars in the long run

If we just said that the penalties and costs can make refinancing not worth the time and hassle, how can we say now that it might actually save you thousands of dollars?

Simply put, many people signed up for an adjustable rate mortgage (ARM) years ago when interest rates were low. They did this because they were able to use a smaller down-payment and had lower mortgage payments at the time, so they were able to afford a home.

However, interest rates have a tendency to do nothing but rise, and many people are finding that their mortgage payments are also creeping up. However, their higher payments are doing nothing to pay down the principal of their mortgage but are simply paying more and more toward the interest.

If this is true in your case, you may want to consider refinancing in order to lock in a lower interest rate now, before rates get even higher. While an 8% interest rate may seem high if you signed your mortgage at 6%, it will seem very reasonable a few years from now if your ARM reaches 10% or even more.

7. It can be wise if you're using the home equity in other ways

Let's suppose you are hesitant about refinancing because that 8% interest may seem high compared to the original interest rate you once had.

However, there may be other things that you can do with the equity cash back you receive from refinancing, other than put it toward your mortgage payment. For example, are you swimming in credit card debt? What is the interest rate on your credit cards? If it's higher than the rate on your mortgage (which it usually is), then it might be wise to use that money you get back or save from refinancing to pay down that debt.

No, you don't build equity by paying credit card debt the way you would by paying your mortgage, but many people simply don't realize how much money they waste on credit card interest payments, especially when they're paying only the minimum balance month after month, year after year. Assuming that you don't even use the credit card to increase its balance, you can actually wind up paying half over again (or even more) in interest charges by the time you pay off your credit card.

Additionally, you may be thinking of refinancing so that you can use some cash back to invest in your home for repairs or upgrades. These types of things can only increase the value of your home, making it a worthy investment.

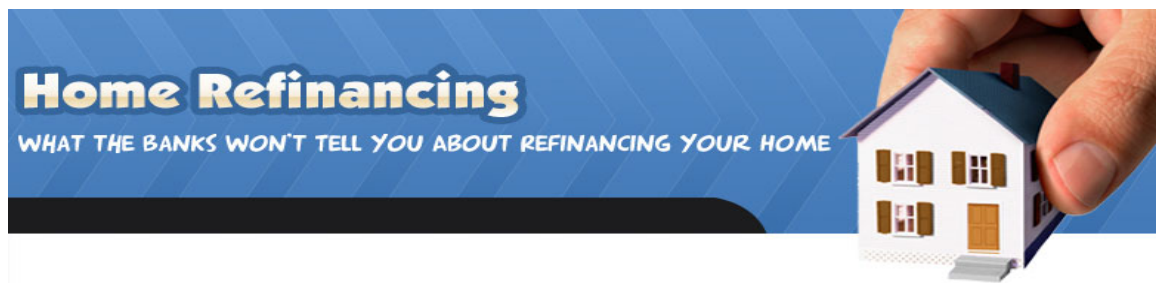
So depending on how it is that you expect to use the money you would save from refinancing, it might actually be a wise financial decision.

These few tips that we've outlined here are in no way meant to be an exhaustive education on refinancing. And of course, as we've said, your exact numbers and financial situation will be different.

However, the point is that for you to make the best decision for yourself and your family, you do need to do some homework. If you're considering refinancing, set up an appointment with your lending institution or financial counselor. Don't hesitate to ask questions and make sure you really understand every detail before you sign papers.

And in the end, you'll be able to make the best financial decision for yourself and your family.

Grab your complete copy now of '[Home Refinancing: What the Banks Won't Tell You About Refinancing Your Home](#)' – it's jam-packed with critical information you must know before you refinance.



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