The Good and Bad of a Refinance Home Loan

Today's mortgage lenders actually do more than just create initial mortgages for homebuyers. In fact, up to half of their time can often be spent creating refinance mortgage loans. These are popular mortgages that provide a new loan to pay off a borrower's first mortgage.

Why would someone get a new loan if they already have a perfectly good loan? The truth is sometimes their first loan wasn't a good loan. Maybe it had a high interest rate, or severe terms. When the market starts to offer lower interest rates, homebuyers can go to a new lender and negotiate for a new loan with the market rate. Others want a refinance home loan because they can take advantage of their gained equity and want to pull out some extra cash at the close of the new loan. Whatever your interest in a refinance mortgage loan, take a look at the pros and cons of these loans before you make a decision.

The Good

Home loan refinances can provide you with much lower interest rates on your new loan, as mentioned above. Even if the new rate is less than 2% lower than your current rate, you can still save a lot of money in interest over the course of your loan. If you get a lower rate, your refinance mortgage loan will also come with lower monthly payments, which could help you put cash toward other pressing expenses.

If you decide to pull money out of your home equity with a refinance home loan for home improvements, you can secure a good lump of cash at closing to put towards increasing the value of your home. Plus the interest on that home improvement refinance loan will be tax deductible, where a normal loan from a bank would not be.

Another great reason to cash out on your home equity with a refinance loan is to consolidate your debts. If you have several large credit debts, whether they are from credit cards, auto loans, student loans, or others, using your home equity cash to pay them all off can do wonders for your credit score and your budget. You will then just have one monthly payment with one interest rate to worry about. And as was said above, the interest will be tax deductible.

The Bad

There are some drawbacks to consider about a refinance mortgage loan before you sign your name on the dotted line. First, you should realize that a new loan will send you further into debt. The new loan will pay off the new one, but it will reset your interest payments and end up lengthening your home loan and total interest.

Also, if you are more concerned with pulling money out for debt consolidation or home improvement than your interest rate, you might end up getting a new rate that is higher than your old one. That will definitely cost you more in interest in the long run. Don't forget the new closing costs. Whether your refinance with your current lender or a different one, you will have to pay for closing costs on the new loan. This could end up costing you several hundred or thousands of dollars, making your savings less profitable.

Your savings can also be negated on a lower interest rate, if you move before your savings equal the fees you paid in closing costs. Make sure you plan on staying in your home as long as it takes to make refinancing a good idea.

Getting a refinance home loan can often be very helpful for getting better loan terms and rates or for cashing in on your home equity. There are lost of factors to consider, so make sure you do your research. If a refinance mortgage loan feels like a good fit for you, talk with your trusted mortgage professional to get started.