



Saving Big with Refinance Loans

If you are one of the many U.S. homeowners facing increasing financial pressures due to the slowing housing market, you may be able to find relief by refinancing your current mortgage loan. Refinancing simply means taking out a new loan to pay off your existing loan. This can net you big savings when the current interest rates are lower than the rate you got on your original mortgage.

Fortunately, even though the national economy has remained fairly strong, the trouble in the housing market, particularly the subprime industry, has allowed mortgage interest rates to remain low. In fact, rates are even lower today than they were a year ago. Today mortgage finance company Freddie Mac announced that the average rate on a 30-year fixed loan is now 6.17% compared with 6.43% at this time last year. Most economists predict the subprime foreclosure crisis will continue to drag on the economy for many months to come. That means interest rates have the potential to fall even more in the near future, making it a great time for you to refinance into a new low-rate mortgage loan.

Refinancing will not only save you on interest charges because of the better rate, but it can also decrease your monthly payments, making it easier for you to keep up with your mortgage. Let's say, for example, that you got your original mortgage with a 7% interest rate. If you bought a house for \$200,000 with a 30-year fixed term, you are paying roughly \$1,330 a month on your mortgage. Over the life of the loan you will pay about \$279,000 in interest charges. Let's say you have been in the home for three years and your current loan balance is about \$193,000. If you can refinance that amount into a new loan at 6%, your new month payment will be about \$1,160. That would be a monthly savings of \$170. During the course of your new loan, you will pay approximately \$223,600 in interest, quite a bit less than you would have at 7%!

Of course, the savings are not exactly that simple. Every mortgage loan requires closing costs, fees paid upfront for certain loan-associated services. These can range from several hundred dollars to a few thousand dollars. These costs will offset your savings from the lower rate. You can still save a lot of money from refinancing, but you have to make sure that your savings will make the upfront costs worth it in the end. In order to derive real monetary benefits from your new mortgage deal, you need to plan to stay in your current home long enough to make your savings more than equal the closing costs you have to pay. So if you will \$200 a month and you have to pay \$2000 in closing costs, you need to stay in your home at least ten months to break even; you have to stay long to see any savings on the deal.

So while you do need to do your homework and crunch the numbers, you may find that now is a great time to refinance and reduce the stress of your current mortgage!