



## Reasons Why You Might Want to Refinance

Mortgage refinance loans have been available for decades and have been increasing popular in recent years. These loans are basically new mortgages that replace the existing loan. People decide to switch loans for a variety of reasons, but the main idea is to save money in one way or another. If you think you could benefit from a new mortgage loan based on any of the following reasons, you should probably consider refinancing.

### Get a Lower Interest Rate

Interest rates on mortgage loans constantly fluctuate. The rate you pay is extremely important as the difference of half a point could cost you tens of thousands of dollars extra in interest fees. If current interest rates have dropped below the rate you are presently paying, you could save lots of money over the course of your home mortgage loan by switching to a new loan at the lower level. Consider this scenario: You have a \$150,000 30-year fixed loan at 7.5%. Over the entire course of your loan you would pay about \$228,000 in interest charges alone. Perhaps you have been in your home for 5 years and have about \$140,000 left to pay on your balance and you have paid a little more than \$50,000 in interest so far. If you were to now refinance into a 30-year fixed loan at 6% on the remaining \$140,000, in the end you would have paid about \$210,000 in interest fees, \$50,000 from your original loan and \$160,000 from your refinanced loan. That is an interest savings of \$18,000, a tidy sum that could be well invested if you have the discipline. Be sure that you plan to stay in your home long enough to make the savings worthwhile as refinance loans require closing costs just like any first mortgage.

### Pay Less Each Month

Whenever you get a lower interest rate, you can also expect to pay less on your monthly mortgage bill. For example, your original mortgage was a 30-year loan with a 7% interest rate on a \$150,000 home. Your current monthly payment may be around \$1000. You have \$120,000 left to pay off on your original mortgage. If you were able to refinance into a loan with a 6% interest rate, your new monthly payment would likely be close to \$720. That is almost a \$300 savings each month. So refinancing not only means paying less interest over the course of the loan, but also paying less money every single month, allowing you to put those funds towards other important projects.

### Save Yourself from 'Payment Shock'

If your original mortgage loan is an adjustable rate mortgage (ARM) you may have enjoyed nice, low payments for a few years. This is especially true if you have had an interest-only loan or pay option ARM. Yet when the fixed rate period is over you could be in for some serious 'payment shock' when your rate adjusts higher. You may face payments that are hundreds of dollars higher than your current payment. For many people, making the higher payments is simply unrealistic. One way to get around this is to refinance into a fixed rate loan. The new rate may be slightly higher than the initial rate on your ARM, but it will be constant and may be lower than the rate increase you would face with an ARM. The trick is to refinance when fixed rates are low; fortunately right now there are quite low by historical standards.



There may be many other reasons why a refinance loan could make sense for you. Talk with your financial advisor or a trusted mortgage professional to help you decide if now is the right time to get into a great home refinance mortgage.