

What Is Refinancing A Mortgage? A Beginner's Guide

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You may have seen advertisements about [refinancing a mortgage](#). These ads usually tell you that you can refinance your home at a lower rate than what you've already been paying. But what is refinancing a mortgage, and how can it help you?

Let's take a look at what the process means and what it can do for you as a borrower and homeowner.

What Does It Mean To Refinance Your Mortgage?



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Although it has its own term, refinancing your mortgage simply means closing your old loan after taking out a new one.

When you refinance your home, you will take money that you've built as equity and apply it to a new mortgage. In some cases, such as cash-out mortgages, you can remove some of that equity in the form of cash.

The process for refinancing your mortgage is similar to the one you went through when you took out your initial loan. You will shop for different mortgages, apply for a loan and if successful, take on a new mortgage.

Why Would I Want To Refinance My Mortgage?

There are several reasons why you might want to refinance your mortgage. Let's take a look at a few of them.

Take advantage of lower interest rates. Interest rates can change dramatically over the lifetime of a loan. That fantastic rate you got 10 years ago might look like a bad deal based on today's rates. Refinancing your mortgage gives you the chance to get a new loan term based on current interest rates. This could save you lots of money in the long run.

Convert from an ARM to fixed-rate mortgage or vice-versa. You may want to refinance your mortgage if you aren't happy with the current loan terms. There are advantages to both ARM and fixed-rate mortgages. If your situation has changed since you opened your mortgage initially, you might want to switch to a different type of interest calculation.

Free up some cash or reorganize your finances. Most of the time when you refinance, you can choose to take some of your equity out as cash. This can help you free up some liquid funds to pay for things or consolidate your debt into a lower interest rate.

What Are The Pros And Cons Of Refinancing A Mortgage?



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It's not always a smart idea to refinance your mortgage. Before you do, take account of your situation as well as the advantages and disadvantages of refinancing. Here are some of the things you should consider.

Pros

If your goal is to consolidate debt, mortgages offer much lower interest rates than credit cards or other loans. Refinancing could help you save on the amount of interest you are paying to different loans.

Since interest rates are published publicly, you can control when you choose to refinance. Refinancing for even 0.5% lower than your current rate can save you thousands of dollars over the lifetime of your loan.

Cons

You will have to pay closing costs again. Even with a lower interest rate, it could take many years to get that money back through smaller payments.

If you are not responsible with your newfound liquid cash and freed-up credit, you could compound your debt issues and set yourself back even further.

The Takeaway

The ability to refinance a mortgage is a powerful tool to have in your financial toolbox. If used properly, you can save yourself significant amounts of money over the lifetime of your loan. However, it is not always a wise decision, even if interest rates are much better in comparison.

A qualified mortgage broker can help you make sense of all the finances and understand what options you have. They can set you up to make the best possible decision for you and your unique situation.

Interest Rates Mortgages



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