Should You Refinance?

You may already qualify for refinancing your home. It's an option that could save a significant amount of money over the lifespan of your mortgage because interest rates can fluctuate so much.

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These rates are tied to the economic climate, which might have greatly changed since you purchased a property. The national debt ceiling can play a role in rising rates; high unemployment might spur federal officials to lower the rate. Still there are other issues to consider, even if the interest rate is more favorable. Here's how to make an informed decision on refinancing your home:

YOUR CREDIT

Signing at a lower interest rate can save homeowners thousands of dollars over the course of a typical 30-year fixed term. So, it makes sense to refinance if things change. The interest rate, however, isn't the only pertinent number. Keep in mind that if your credit score is worse than when you signed the initial loan product, you won't necessarily be able to take advantage of the lower rates now being offered by banks. If this score needs work, it might make sense to take more time to improve your credit standing, then try to sign at a better interest rate in the future.

THE COSTS

This option isn't without a price. Depending on the type of loan, and which broker or bank handles the paperwork, owners looking to refinance their home might pay up to three percent of a new loan balance in fees. This commission money underwrites a process where your agent shops the loan to find the best updated market rate. They're also handling a stack of new paperwork, coordinating the deal and ensuring that everything is in proper legal order. You'll also need an appraiser to gauge the current worth of your property.

CASHING OUT

Refinancing can help with cash-flow issues, like mounting medical bills or needed repair work. In some cases, refinancing a home at a lower interest rate allows homeowners to claim a lump sum of upfront money. But this isn't free cash. The balance is added to the end of your loan, and the new mortgage will likely have a higher monthly payment. In the meantime, this one-time payout will inevitably end up costing you much more in the form of interest paid over the years. It might not be worth it, once you've considered all of these added costs.

SMART INVESTMENTS

If you've decided to pull out some of the cash equity of your home, reinvest wisely. Avoid buying items that don't grow in value — like say, a new car, which begins to depreciate as soon as you drive it off the lot. Shopping sprees and vacations aren't worth the back-end costs associated with long-term loans. On the other hand, homeowners with sufficient equity might consider refinancing if they're looking to make property improvements in order to sell. You could make all of that investment back, and more, if the home is in better condition for potential buyers. Investing in yourself can be a smart use of this influx of cash, too. Returning to school might lead to a better job; starting a business could help you build financial independence.

REAL ESTATE 101

Understanding Refinancing Options

If you are considering refinancing your mortgage, there are several options — each designed to meet specific goals. Be sure to talk with your lender about the costs and benefits of each option and review this guide prepared by Freddie Mac at **bit.ly/3kgoqoR.**

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HOMEWISE GLOSSARY

Due on sale clause: Language in the mortgage closing agreements that inform the borrower that if they allow their loan to be assumed or transferred in any way, the lender has the right to demand the balance in full. **SOURCE**: MLS.com