9 Things You May Not Know About Mortgage Refinancing

1 REFINANCING ACTUALLY RESULTS IN A NEW LOAN

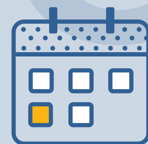
When you refinance, you pay off your current mortgage, and then a new loan is created with new terms.

2 IT'S NOT JUST ABOUT LOWERING YOUR INTEREST RATE

Lower interest rates are a big factor, but there can be other benefits as well.

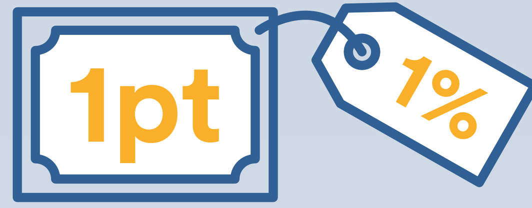
- Lower your interest rate
- Shorten the term of your loan
- Convert an ARM to a fixed-rate loan
- Get rid of private mortgage insurance (PMI)
- Cash out some equity

3 WHEN EVALUATING YOUR OPTIONS, THINK BOTH SHORT-TERM AND LONG-TERM



Lower your monthly payments

Reduce your total cost over the life of the loan



The upfront cost of one point is equal to one percent of the loan value. The amount your interest rate is reduced by paying points varies depending on market conditions and loan type.

4 PAYING POINTS CAN HELP YOU LOWER YOUR INTEREST RATE

Points are essentially a way to "pre-pay" some interest at closing to get a lower monthly payment. Typically, paying points makes sense when you plan on being in the home long-term.

5 THE ADVERTISED INTEREST RATE ISN'T NECESSARILY THE RATE YOU'LL GET

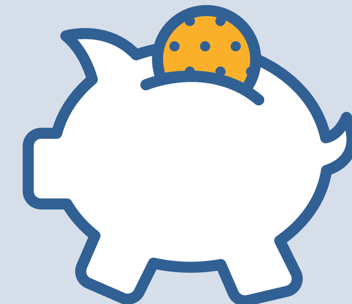
You may see offers promoting interest rates "as low as," but you might not get that rate depending on your specific circumstances.

6 THERE'S REALLY NO SUCH THING AS A "NO CLOSING COST" REFINANCE

This option comes with a higher interest rate that might seem like a small increase, but it can add up over the life of the loan.

7 CALCULATE HOW LONG IT'LL TAKE YOU TO RECOUP THE EXPENSES AND FEES

Divide your refinance costs by the amount you'll save each month with your lower mortgage payment. The answer will be the number of months until you break even.



8 YOUR EQUITY IS BASED ON THE CURRENT VALUE OF YOUR HOME

Lenders don't look at the price you originally paid for your home – it's the current market value that matters.

9 LENDERS LOOK AT YOUR DEBT-TO-INCOME RATIO (DTI) ALONG WITH YOUR PAYMENT HISTORY

Your debt-to-income ratio is your total minimum payments (mortgage, credit cards, car loans, etc.) per month divided by your total gross (before taxes) monthly income. **Lenders tend to look for a debt ratio of <43%.**

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