Top 5 reasons to refinance

Reasons to refinance and the pros and cons of each:

1. Lower monthly payments
2. Lower interest rate
3. Switch to a fixed-rate
4. Change your loan term
5. Cash-out refinance

Reason 1

Lower monthly payments

Refinancing for another 30-year term after making payments for a number of years and earning equity will lower your monthly payments and free up room in your budget for other financial goals.

Pro: Lower your monthly payment.

Con: Your 30 years will reset and you'll pay a lot more in total interest.

Reason 2

Lower interest rate

If interest rates fall after you close on your loan at a higher rate, you could consider refinancing to take advantage of the lower rate. You could save tens of thousands of dollars, depending on the length of time you've had your loan. Still, there are other factors to consider. Speak with your lender for all the details and decide what's best for you.

Pro: Possibility to reduce your overall interest payments.

Con: If you've had your loan for more than a few years, you might not save in the long run.

Reason 3

Switch to a fixed-rate

If your original loan is an adjustable-rate mortgage (ARM) and your initial fixed term is about to expire, you may want to refinance to a fixed-rate mortgage. Locking in a rate can protect you from rising interest rates in the future. And having the same principal and interest payment every month is easier to plan and budget for. Remember, you still have the option of refinancing for fewer than 30 years.

Pro: Predictability, stability and potential cost savings.

Con: If rates drop, you won't be able to take advantage of that without another refinance.

Reason 4

Reduce your loan term

If you can afford to increase your monthly payments, it might be a good idea to shorten your loan term. By paying more over a shorter period of time, you could save tens of thousands of dollars in interest over the life of the loan and own your home mortgage-free sooner.

Pro: You'll save a lot in total interest.

Con: Your monthly payment will be higher.

Reason 5

Cash-out refinance

As an alternative to a home equity loan, it might be a good idea to refinance and cash out a portion of your home equity. This allows you to access a large chunk of money without selling your home. You might need the cash to start a business or pay for a child's college education. Keep in mind though that the cash you take out will cost you more in interest over the life of your new home, but not necessarily more than other financing options would cost you.

Pro: Get cash to pay for home improvement projects, college or other major purchases.

Con: You'll reduce your home equity and, because you'll reset your loan term, you'll pay more in total interest.

Breaking even on closing costs

Find out what your closing costs will be to refinance and factor those into your break-even point—the time it will take you to recover the money it costs to refinance. If you plan to sell before that point, you probably should not refinance. Use a refinance calculator to figure this out, like the one at:

BetterMoneyHabits.com

EXAMPLE

$200
Lower your monthly payment:

×

25 months
Time it will take to break even

= $5,000
Cost to refinance

Better Money Habits™

Powered by Bank of America in partnership with KHANACADEMY

For more information, visit BetterMoneyHabits.com