

Buyer Beware: Know the Terms Before You Refinance

It makes good financial sense to refinance your mortgage when interest rates drop below the rate of your current loan. However, before you enter into an agreement to refinance your mortgage, completely familiarize yourself with the loan terms so that you know what you are committing to. Knowledge is your best protection from mistakes you will regret later. The housing crisis of the late 2000s is the perfect illustration of the consequences of leaping before you look.

There are a variety of good reasons to refinance your mortgage. One of the most popular reasons is to lock onto a more favorable interest rate when a current (adjustable rate) mortgage is about to reset. Another popular reason to refinance a mortgage is to gain access to the equity in the home for home improvement or debt reduction purposes by taking out a loan in an amount greater than the outstanding balance of the current one. The benefits of this strategy come at income tax time as mortgage interest is deductible, whereas consumer loan interest is not.

There are some homeowners who refinance a mortgage solely to shorten the repayment period. Monthly payments will rise, but the overall interest paid over the life of the loan will be less and the loan will be paid off sooner. Regardless of the motivation behind your decision to refinance your mortgage, you should do some preliminary investigation into available mortgage products so that you understand exactly what you will be responsible for.

Another point to consider when deciding whether to refinance your mortgage is how long you intend to remain in your current home. It typically takes about two years before you completely recoup your closing costs from the savings. Selling your home shortly after a mortgage refinance does not make sense.

The process remains the same whether you refinance a mortgage or take out a new loan. You are still responsible for loan closing costs, which include application fees, title update and review charges, title insurance premiums, document processing fees, discount points, appraisal fees, attorney fees and county clerk filing and recording fees. You either pay these costs upfront or add them onto the mortgage.

The refinance of your mortgage can be one of your smartest financial moves, provided you understand the terms of the loan and you intend to remain in your home long enough to recover your closing costs.

About the Author

Research on [refinance mortgage](#), see refinancerates.incomestores.net/?What-You-Need-to-Know-to-Refinance-Your-House&view=4817.

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