

Home Loan Refinance : A Primer

Why refinance?

Most homeowners choose a home loan refinance when they are in need of significant amounts of extra cash for a variety of reasons. For example, you may have a youngster who is nearing college age and you want to provide cash to reduce the amount of college loans that will be due upon graduation. You may need cash for pressing medical bills, or you may choose a home loan when you want to do major renovation to your home. Another common reason for refinancing and pulling equity from your home is to consolidate credit card debt and thus lower interest rates.

When is the best time to refinance?

Choosing a home loan refinance can make good sense at several times in your financial life. For example, you may have acquired your existing mortgage at a time when interest rates were high, due to the nation's economy, or you may have had a higher interest rate because of personal credit issues. Refinancing should not be done frivolously, but when you are in genuine need of the cash, or when the savings in interest fees will more than offset the cost of the refinance. Because the refinance option taken too frequently can be a sign of a homeowner in financial trouble, you should avoid the refinance option except for times when it makes good financial sense to do so.

What is the bottom line?

The bottom line will result in a savings over all to you, or an increase to you. At times, the homeowner will do a home loan refinance and save thousands of dollars in interest fees since the interest rate has dropped. Another time when the interest fees will be lower over the term of the loan is if you are repaying a larger payment in order to reduce the term of the loan. If you are spreading the mortgage out over a longer period of time in order to reduce the payment amounts, you may end up with significantly more interest costs, plus the costs of the loan itself.

What can you use the money for?

A home loan refinance with cash out can be used for almost any purpose you wish. Depending on the way you structure your loan, you may have lump sum cash available; you may decide to have a line of credit tied to your home equity value, or you may use the funds to pay off existing debts and bills in order to free up disposable income each pay period in the future. The choice will depend upon the individual needs in your situation and how your tax picture is structured.

Things to watch out for

Be cautious in structuring a home loan refinance. You will want to verify that you are obtaining your loan through a legitimate broker or direct lender. Make sure that you don't end up with a different type of loan than you thought you were getting. For example, if you want a fixed rate loan, take care that you aren't sold a variable rate loan or one where you have a negative equity building.

About the Author

Determine the characteristics and terms of a home refinancing choice is important. Choose a resource site that will help you to understand and compare various loan options. The best site on the internet can be located here at [Home Loan](#) or [Home Loan Refinance](#).