

## Benefits of Re-Financing

There are a number of benefits which may be associated with re-financing a home. While there are some situations where re-financing is not the right decision, there are a host of benefits which can be gained from re-financing under favorable conditions. Some of these benefits include lower monthly payments, debt consolidation and the ability to utilize the existing equity in the home. Homeowners who are considering re-financing should consider each of these options with their current financial situation to determine whether or not they wish to re-finance their home.

### Lower Monthly Payments

For many homeowners the possibility of lower monthly payments is a very appealing benefit of re-financing. Many homeowners live paycheck to paycheck and for these homeowners finding an opportunity to increase their savings can be a monumental feat. Homeowners who are able to negotiate lower interest rates when they re-finance their home will likely see the benefit of lower monthly mortgage payments resulting from the decision to re-finance.

Each month homeowners submit a mortgage payment. This payment is typically used to repay a portion of the interest as well as a portion of the principle on the loan. Homeowners who are able to refinance their loan at a lower interest rate may see a decrease in the amount they are paying in both interest and principle. This may be due to the lower interest rate as well as the lower remaining balance. When a home is re-financed, a second mortgage is taken out to repay the first mortgage. If the existing mortgage was already a few years old, it is likely the homeowner already had some equity and had paid off some of the previous principle balance. This enables the homeowner to take out a smaller mortgage when they re-finance their home because they are repaying a smaller debt than the original purchase price of the home.

### Debt Consolidation

Some homeowners begin to investigate re-financing for the purpose of debt consolidation. This is especially true for homeowners who have high interest debts such as credit card debts. A debt consolidation loan enables the homeowner to use the existing equity in their home as collateral to secure a low interest loan which is large enough to repay the existing balance on the home as well as a number of other debts such as credit card debt, car loans, student loans or any other debts the homeowner may have.

When re-financing is done of the purpose of debt consolidation there is not always an overall increase in savings. Those who are seeking to consolidate their debts are often struggling with their monthly payments and are seeking an option which makes it easier for the homeowner to manage their monthly bills.

Additionally, debt consolidation can also simplify the process of paying monthly bills. Homeowners who are apprehensive about participating in monthly bill pay programs may be overwhelmed by the amount of bills they have to pay each month. Even if the value of these bills is not worrisome just the act of writing several checks each month and ensuring they are sent, on time, to the correct location can be overwhelming. For this reason, many homeowners often re-finance their mortgage to minimize the amount of payments they are making each month.

### Using the Existing Equity in the Home

Another popular reason for re-financing is to use the existing equity in the home. Homeowners who have a considerable amount of equity in their home may find they are able to cash out some of this equity for other purposes. This may include making improvements to the home, starting a business, taking a dream vacation or pursuing a higher degree of education. The homeowner is not limited in how they can use the equity in their home and may re-finance a home equity line of credit which can be used for any purpose imaginable. A home equity line of credit is different from a loan because the funds are not disbursed all at once. Rather the funds are made available to the homeowner and the homeowner can withdraw these funds at anytime during the draw period.

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