

## Is Re-Financing Always Worthwhile?

This is a very important question which all homeowners should ask themselves both at the start and towards the end of the process of re-financing. The answer to this question can spur the homeowner to investigate re-financing further or convince the homeowner to table the thoughts of re-financing for the moment and concentrate on other aspect of owning a home.

### Establish Financial Goals

This should be the first step in the process of determining whether or not re-financing is worthwhile. Without this step, a homeowner cannot accurately answer the question of the worth of re-financing because the homeowner may not fully understand his own financial goals. While financial goals may run the gamut from one extreme to another the most basic question to ask is whether the more significant goal is long term savings or increased monthly cash flow. This is important because re-financing can usually achieve these two goals.

### Do You Want to Save Money in the Long Run?

Homeowners who establish a goal of saving money in the long run should consider re-financing options such as lower interest rates or shorter loan terms. Both of these options can considerably lower the amount of interest the homeowner is paying on the loan. This is significant because paying less interest will result in a greater cost savings.

Consider an example where a homeowner has an existing debt of \$100,000, an interest rate of 6.25% and a loan term of 30 years. Just by reducing the loan term to 15 years the homeowner can significantly decrease the amount which is paid in interest during the course of the loan. However, this option will also result in an increase in the monthly payments made by the homeowner. Therefore this type of re-financing option may only be available to those who have enough cash flow to compensate for the increase in monthly payments.

### Do You Want to Increase Your Monthly Cash Flow?

Some homeowners may have a chosen goal of increasing their monthly cash flow. For these homeowners the overall cost savings may not be as important as having more money available to them each month. These homeowners might consider a re-financing option in which they are able to extend their loan terms. This means they will be repaying the existing debt over a longer period of time. The homeowner will pay more in interest in the long run but will achieve their goal of lower monthly payments and an increased cash flow.

### How Will Re-Financing Affect Tax Deductions?

This is another serious consideration for homeowners who are interested in investigating the possibility of re-financing. The interest paid on a home loan is often tax deductible. A homeowner who re-finances in a manner which results in less interest being paid annually may adversely affect their tax strategy. The implications of this type of change can be amplified for homeowners who were previously just below a significant tax break line. A significant decrease in the amount of interest paid will mean a significant decrease in the deduction the homeowner is allowed to take. This reduced deduction can put the homeowner in an entirely different tax bracket and could end up costing the homeowner money in the long run. For this reason, homeowners who are considering re-financing should have a tax preparation professional determine the ramifications re-financing will have on their tax return before a decision is made.

## About the Author

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