5 Benefits of Refinancing Your Mortgage

After purchasing a home, you may notice that interest rates have continued to go up and down in the months or years after taking out your mortgage. As interest rates fluctuate, you may hear your friends, family members, and neighbors talk about refinancing their homes in order to save money. Yet, if you're unfamiliar with refinancing, you may find yourself wondering what it means to refinance your mortgage, and what benefits you stand to gain by refinancing.

When you refinance your home's mortgage, you are basically swapping out your old loan for a new one, often with better terms than your initial loan. While there are many reasons why people may choose to refinance their homes, the most common reason people refinance is to save money, as they may be able to use refinancing as an opportunity to take advantage of better interest rates. However, there are many benefits homeowners stand to gain when refinancing their mortgage.

If you are debating refinancing your home but aren't sure if this is a good financial choice for you, keep reading as we take a look at just a few of the benefits refinancing could provide you with.

Lower Your Interest Rate

As we previously mentioned, one of the biggest benefits of refinancing your mortgage is that doing so may allow you to take advantage of lower interest rates. If interest rates are significantly lower than when you initially bought your home, refinancing could help save you thousands of dollars over the life of your loan. Alternatively, if interest rates haven't changed very much but your credit score has increased significantly, you may qualify for a much better interest rate than you initially did.

Shorten Your Mortgage

When refinancing your mortgage, you will also have the option to shorten your loan's term. For instance, if you had 23 years left on a 30-year loan, you may choose to move to a 15-year loan when refinancing. This would allow you to avoid thousands of dollars in interest payments while also helping you pay off your home much earlier than you had anticipated. Of course, shortening the length of your mortgage may not be a practical option unless you have had an increase in income since you purchased your home, as a shorter term may mean higher monthly payments. However, if you're already considering refinancing, it couldn't hurt to talk to your lender about how changing your loan's term could affect you. If you qualify for a lower interest rate, you may be able to move to a shorter term without significantly changing your monthly mortgage payments.

Lower Your Monthly Payments

Alternatively, if you have been struggling financially, or you anticipate a decrease in income, you may want to consider refinancing to lengthen the term of your loan. For instance, if you have 20 years left on a 30-year mortgage, you could choose to refinance with another 30-year mortgage. Stretching out your remaining principal across another 30-year loan could help significantly reduce your monthly mortgage payments, increasing your cash flow.
Of course, this isn’t a decision that should be made lightly, as you will likely spend much more in interest over the course of your mortgage by starting your 30-year term over again. However, doing so may be necessary to help you stay on budget or meet other financial goals if you’re in a tough spot.

Eliminate Mortgage Insurance

Refinancing can also be beneficial by allowing you to get rid of mortgage insurance. If you purchased your home with a down payment smaller than 20% of the purchase price of the home, then it’s likely that you are currently paying private mortgage insurance (PMI). Mortgage insurance allows borrowers to obtain a mortgage with a smaller down payment while protecting the lender should they stop making payments on their loans. However, if you’ve paid off a significant amount of your mortgage, or your home’s value has increased, then you may be able to refinance and get rid of your PMI. If you have at least 20% equity in your home, you may be able to refinance into a new loan that does not have mortgage insurance, lowering your expenses by hundreds of dollars a month.

Tap Into Your Home’s Equity

Over time, you will gain equity in your home either through mortgage payments, increases in property values, or a combination of both. Equity is the value of your home higher than the remaining principal on your mortgage. If your home’s value is currently higher than what you owe, then you could choose to do a cash-out refinance that would allow you to tap into your home’s equity. This allows you to access a large chunk of money (without having to sell your home) that you can use for any purpose. Oftentimes, homeowners will use a cash-out refinance to pay for renovations for their home, or to consolidate debt. If you want to update your home, or you have credit cards you are trying to pay off, tapping into your home’s equity could help you meet your goals at a lower interest rate than if you used a credit card or took out a personal loan.

For many homeowners, refinancing can be a great way to take control of their finances and meet long-term goals. If you think that refinancing may be a good option for you, feel free to contact us today to learn more about the benefits of refinancing as well as to find out what rates you may qualify for.