



When is the Right Time to Refinance?

Refinancing has been a very popular home loan choice over the past several decades. In fact, refinance loans generally make up close to half of all home loan requests nationwide. A refinance loan is a great way to get into a better interest rate or to get out of an upwardly adjusting ARM loan. If you are looking for a chance to switch out of your current loan, how do you know when it is the perfect time to start the process? Take a look at the following information to understand the important timing factors. If you are simply looking for a better interest rate on your loan, the answer is obvious. Wait until national mortgage rate averages reach the low point you are looking for. You should then select a lender, get them to promise you a rate lock and then follow through with the application. Be aware however that with any refinance loan you must be prepared for your interest payments to reset, meaning you will be paying much more in interest over the life of your home owning period. Make sure the savings in the interest rate are really worth it to you. If you are hoping to refinance into a fixed rate loan from an adjustable rate or interest-only mortgage, there are several things to consider. ARM loans and interest-only mortgages operate on the principle of low initial payments, followed by a jump in interest rates, payments, or both. These types of loans generally allow for low payments for a certain number of years, anywhere from one to ten years. If you currently have a three year adjustable rate mortgage, and your three years are almost up, it may be a great time for you to refinance. This is especially true if you think interest rates or your payments are going to skyrocket after the fixed period. Many people enter into ARM loan contracts, with the intention to refinance before the rate adjusts, thereby taking advantage of the low rates without the payment jump penalty. No matter what kind of loan you have at present, one important factor to understand about refinancing is that you will be required to pay a new set of closing costs at the close of your refinance loan. The right time to refinance may be the time when you have a couple hundred or thousand dollars saved up to cover the closing costs. If you do not foresee a time when you will have such a sum in the bank, try looking for a lender that will allow you to roll your closing costs into the total cost of the loan. While this means slightly higher payments or a longer term, it could still help save you thousands in the end. Perhaps the most significant issue in determining the right time to refinance is the amount of time you plan to stay in your home. Because refinancing your current loan will cost you in both closing costs and resetting interest payments, to make refinancing a smart option, you need to remain in your home long enough to make the interest rate savings worth the new costs. You can calculate how long you'll have to stay in your home by figuring out how much you will save in mortgage payments each month and add up how many months of savings will equal what you pay in closing costs. This will be your "break-even" period. Staying longer than that will create real savings for you, staying for a shorter period will end up costing you more than you save. The right time to refinance is based on several factors including your current type of loan, the amount of closing costs you will have to pay, the current market interest rates, and the amount of time you plan to stay in your home. Talk with your mortgage professional to weigh all the issues and see if now is the right time for you to refinance your mortgage loan.