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Should You Join The Refinancing Boom?

Refinancing is paying off one loan using a new loan for the same property. This can be very beneficial, depending on the amount of time you have lived in and plan to live in your home and the type of payments you would like to be making. Some benefits of refinancing include lower monthly payments, debt consolidation, and getting out of debt more quickly, depending on what type of refinance you choose. To better understand what's available, several of today's refinancing options are listed below. 1. You can refinance to an interest-only loan, meaning that you are required to pay only the interest each month (no principle), making for much smaller payments. This helps if you have another large expense that is more pressing at the time, but it will also lengthen the total time of your loan. Interest-only loans are available for the first few years of your mortgage only, so it is best to consider this soon after buying your home. 2. If you are trying to get that loan paid off sooner you can refinance to a shorter term loan. This will increase your monthly payments but will get you out of debt more quickly and save you a lot of money in interest. 3. Another option is to increase the term of your loan. A longer term loan means lower payments now, but it also means more payments in the long run. This can be helpful if your current budget just isn't enough to pay all the bills. 4. A popular choice is to refinance from an Adjusted Rate Mortgage (ARM) to a fixed rate loan. This is beneficial if you have reached the end of your low interest rate term and are facing a large jump in monthly payments because of rising interest rates. Refinancing to a fixed rate loan will potentially lower your monthly payments, since rising interest rates do not affect fixed rate loans. This is a good idea if you plan to stay in your home for more than the ARM's low interest term (usually 5-7 years).5. On the other hand, if, when you purchased your home you planned to stay for a while, you may have initially chosen a fixed rate loan. Now you may be moving sooner than expected. It may be a wise move to refinance from the fixed rate to the ARM loan, in order to lower your payments until you sell. Or, perhaps you presently have a fixed rate loan with an interest rate that is higher than the current market rate. It could significantly lower your payments to refinance to an ARM loan now while the market's interest rates are low. 6. A cash-out refinance is when you take out a new loan larger than what is left of your old mortgage. The old loan, taking into account the equity you've built up in your home, is subtracted from the new loan, and you get the difference in cash. The interest rates on cash-out refinanced loans are generally the same as on any other mortgage loan. You may choose to use the money from a cash-out refinance to pay off a large and pressing debt or expense. Many people choose to use this loan to remodel their house, thus increasing the value of their home. Another great option is to use the cash from this loan to pay off outstanding credit card debt. It is an especially good idea when you consider the fact that, unlike credit card debt, most mortgage loans are tax deductible.In refinancing, as with any financial venture, it is very important to do your homework before making any decisions. Beware of pre-payment penalties (fees for paying off principle before it falls due) and always be sure you understand the terms involved in your loan, including closing costs and interest rates. Make sure you evaluate your budget, your financial priorities, and your plans for the future, and that you consult a mortgage professional you can trust.

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