

MORTGAGE LIBRARY • LOAN GUIDE 02

Refinancing

How to tell whether a refinance will actually save you money — and when it's smarter to wait.

Refinancing means replacing your current mortgage with a new one. People do it to lower their monthly payment, pay off their home sooner, switch from an adjustable rate to a fixed rate, remove mortgage insurance, or take cash out for something important.

A refinance can be a great move — or an expensive one. This guide shows you how to run the numbers yourself, what the different types of refinance do, and the questions that separate a good deal from a sales pitch.

At a Glance

WHO IT'S FOR

Homeowners who want a lower payment, a shorter term, a more predictable rate, or access to their equity.

THE KEY TEST

Your break-even point: how long it takes your monthly savings to cover the cost of refinancing.

COMMON GOALS

Lower payment, pay off sooner, drop mortgage insurance, consolidate debt, or fund a big expense.

WATCH OUT FOR

Restarting your loan term without realizing it, and rolling large costs into your balance.

How a Refinance Works

When you refinance, a new loan pays off your existing mortgage. You go through an application, appraisal, and underwriting much like when you bought the home, and you pay closing costs. In return, you get new terms — a different rate, a different length, or both.

Because there are real costs involved, the question isn't just "is the new rate lower?" It's "will I keep this loan long enough for the savings to outweigh the costs?" That's what the break-even calculation answers.

Types of Refinance

Rate-and-term

Changes your interest rate, your loan length, or both, without taking extra cash out. The most common way to lower a payment or pay off sooner.

Cash-out

Replaces your mortgage with a larger loan and gives you the difference in cash. Useful for renovations, debt consolidation, or big expenses — but it increases what you owe.

Streamline options

Some FHA and VA loans have simplified refinance programs that may require less paperwork. Eligibility depends on your current loan.

Removing mortgage insurance

If your home has gained value, refinancing into a different loan type may let you drop mortgage insurance. Sometimes it can be removed without refinancing — ask first.

Your Questions, Answered

Will refinancing actually save me money?

Compare your current monthly payment to the new estimated payment, then compare that savings to the total cost of the refinance. If you'll stay in the home well past the break-even point, it may make sense. If you might move soon, it may not.

How do I figure out my break-even point?

Divide your total closing costs by your monthly savings. The answer is roughly how many months until the refinance pays for itself. Our Refinance Break-Even Worksheet walks you through it.

Am I restarting my loan from the beginning?

Usually, yes — unless you choose a shorter term. A lower payment over a brand-new full term can mean paying more interest overall. I'll show you both the monthly and the long-term picture.

Should I take cash out while I'm at it?

Only if you have a clear purpose for the money and a plan to manage the larger balance. If you only need cash occasionally, a home equity line of credit may be a better fit.

Can I roll the closing costs into the loan?

Often, yes. It reduces what you pay up front, but it increases your balance and the interest you pay over time. It's a trade-off worth seeing in writing.

What if rates drop again after I refinance?

Nobody can predict rates. Focus on whether this refinance makes sense on its own numbers today. If it does, it's a good decision regardless of what happens next.

What to Expect, Step by Step

- 1 Clarify your goal.** Lower payment, shorter term, cash out, or a fixed rate — the goal decides which option fits.
- 2 Run the numbers.** I'll give you estimated payments and costs so you can see your break-even point.
- 3 Apply.** You share updated income, asset, and mortgage information.
- 4 Appraisal and underwriting.** The home's value is confirmed and the file is reviewed. I'll keep you posted.
- 5 Closing.** You review your Closing Disclosure and sign. For a primary residence, there's a short waiting period before funds are released.

Mike's Straight Talk

Sometimes the answer is “not yet”. If the numbers don't work, I'll tell you. A refinance that doesn't pay for itself isn't a favor to you.

Watch the total cost. A lower monthly payment can still cost more over the life of the loan. Look at both.

Be careful with debt consolidation. Moving credit card debt into your mortgage can lower payments, but it turns short-term debt into long-term debt secured by your home. It works best with a plan to keep the cards paid down.

Compare apples to apples. When you compare offers, use the Loan Estimate — same loan amount, same term, same lock period.

Documents You'll Likely Need

- ☐ Your most recent mortgage statement
- ☐ Homeowners insurance information
- ☐ Recent pay stubs and W-2s (or tax returns if self-employed)
- ☐ Recent bank and retirement account statements
- ☐ Property tax information
- ☐ HOA contact information, if you have one

Your list may differ. See the full *What Documents Will I Need?* checklist in the Mortgage Library.

Have a question? Ask me directly.

Asking a question isn't applying for a loan. You'll get a straight answer from a real person.

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