

Applying For Mortgage Refinancing

Mortgage refinancing entails obtaining a new loan to pay off and replace an existing mortgage. There are several scenarios wherein mortgage refinancing is a good idea.

Most people apply for mortgage refinancing to pay lower interest rates, thus saving them money for the duration of the loan. In most cases however, you will have to pay lender fees and other charges that are tied in with the new loan. If you do apply for this type of mortgage refinancing, make sure that the savings from refinancing will outweigh the costs of the transaction. It is also important to take into consideration the length of your stay in your home. Selling your home before you break even on the refinance will end up costing you more money than if you never refinanced your first mortgage.

Another common scenario is when the homeowner has an adjustable rate mortgage (ARM) and the interest rate on that mortgage "re sets" to a higher rate. If you think mortgage rates will continue to increase, replacing your adjustable rate with a new fixed rate mortgage will keep you from paying higher interest costs when the rates go up. If you think rates are likely to go down in the long term, it may be smarter to refinance into a new adjustable rate mortgage.

Homeowners who find they are unable to make their current mortgage payments may opt for mortgage refinancing as a way to extend the term of the loan and thereby lower their monthly mortgage payments. Although this can help you get through a difficult financial period, you will end up paying more in interest over the course of the loan. And again, if you are not able to get a lower interest rate on your new mortgage loan, the time it would take to cover the cost of the upfront closing costs could be longer than you plan on staying in the home.

When you make the decision to apply for mortgage refinancing it is important to understand how much you will save each month and what the costs of refinancing will be. To determine if refinancing is really an ideal course of action to take, multiply the amount that you will save each month with the number of months that intend to live in your home. Then subtract the total costs and fees that you paid for the new loan. If the result comes out less than zero, it means that you will actually be losing money with refinancing. If you go for refinancing, you will be in a better position to either break even or save money if you live in your home for a longer period of time. Mortgage refinancing is still a far better option even if the rates on the new loan are only slightly lower than what you are paying now.

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