

Calculate When You Should Refinance

How do you know when the time is right to refinance your house? Deciding when to refinance may seem more like an art than a science, but it is just a matter of numbers. Walk through the steps, and at the end you will know whether or not now is the time for you to refinance.

First, what interest rate is your lender likely to offer you? The lower federal interest rates are and the better your credit score is, the better an interest rate you can expect. This step is partly dependent on the lending banks evaluation of you and your financial situation, so you will not know your exact rate until the lender makes you an offer, but reading online sources can give you a good general idea of what to expect.

When you know your likely interest rate, decide how long you want the term of the mortgage to be, and use an online mortgage calculator to work out how much your monthly payments will be after the refinance. (Ideally the term of your new mortgage will be equal to the amount of time left on your old mortgage. Otherwise, the longer mortgage term is likely to offset any reduction in interest, and you may as well not refinance.) Also work out the likely difference between your monthly payments after you refinance and the amount you currently pay per month.

Then work out how much the fees and taxes of a refinance will add to the total. These "hidden" costs add up: A basic refinance frequently costs \$2000 to \$3000, and could cost even more.

When you know exactly how much refinancing will cost, divide it by the difference between your current monthly payments and your future monthly payments. The result is the period, in months, that it will take you to break even after you have completed the refinance. For example, if you are currently paying \$1200, your future payments would be \$1000, and the refinance would cost \$2200 in fees and taxes, you will break even in 11 months. After that, you would start saving money. Do you plan to stay in your house long enough to garner noticeable savings from a refinanced mortgage? If your answer is no, then you should skip the trouble of refinancing and stay with your old mortgage. However, if the answer is yes, then now is the time to refinance.

As you can see, deciding when to refinance is a simple matter of doing the numbers. None of the variables are set until you receive a formal loan offer from your bank, but you should be able to make a good estimate of what your bank will offer you. Use this formula to refinance at the right time, and you and your family will reap the benefits for years to come.

About the Author

Research about [home mortgage](#), visit www.getsmart.com.

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