

# Refinance Your Home the Easy Way

You may have heard of a financial tool called home refinancing. Basically, a home refinance is arranged to pay off one home loan with another loan.

At first, it can seem foolish to take on one debt, simply to pay off another. There are advantages and disadvantages to the process. Is the decision to refinance your home a smart move for you? Before deciding, you need to delve a little further into the ins and outs of the process.

## How Home Refinancing Benefits the Home Owner

The main reason that you would choose to refinance your home would be to take advantage of a lower interest rate. As rates drop, homeowners have the option to save money on their loan payments by locking in at the reduced rate. In general, lower interest rates translate into lower mortgage loan rates. When you refinance your home, you are able to take advantage of the lower rate and save a few dollars on your monthly payments.

There is one main calculation that must be used in your decision-making process. It's essential that you're able to determine whether the money you'll save on monthly mortgage payments will be greater than the costs involved in refinancing your home.

## Learn the Rules

There is a simple rule of thumb that governs most types of financial calculators. Quite often, when calculating loans, we are told to look for a minimum interest rate improvement of no less than two percentage points from our existing loans before getting serious about refinancing. In other words, if you're currently paying 10% on your personal loan and the new rate is 8.5%, it's probably not worth your while to go to the trouble of refinancing.

When it comes to mortgages, however, such rules of thumb can be very misleading. There can be a substantial variable in the degree of rate reduction that's required for you to realize financial gain. More often than not, interest rate reductions depend on how long you plan to hold the new mortgage, how many years you have already paid on the current mortgage, and the increasingly available opportunities that are in place for you to cut your closing costs.

Therefore, it's hard to determine one single rule that will cover all possible mortgage scenarios with reasonable accuracy. Again, you need to ask yourself if it's financially beneficial to consider refinancing your home.

## Do the Math

Consider the specific numbers that reflect your unique situation. Find out how much money is owed on your present mortgage, and know the current interest rate that you're paying. Search online for a mortgage calculator, available on most bank websites, and input these figures.

You can use a mortgage calculator to determine what your home refinance costs might be. Then, use the figures as a guide as you're shopping around for potential lenders.

Incidentally, the days when lenders were doing homeowners a "favor" are long past. It's no secret that lenders make their money from the interest you pay, so essentially, you are in control of their livelihood. You have the upper hand, and are free to compare and haggle to find the best rates and services.

So, is refinancing your home a wise choice? If interest rates are low, it probably is. Search for mortgage brokers online, or speak with your financial institution for more information.