Should I refinance?

Refinancing happens when you pay off your current mortgage with money from a new mortgage.

Often homeowners refinance to try to lower the cost of their mortgage. For example, you might be able to get a new mortgage with a lower interest rate when interest rates fall. But there are usually tradeoffs, so here are some questions to help you think about whether refinancing is a good financial move for you.

Refinancing may remind you of what you went through when you got your current mortgage. You could go through many of the same steps and could pay many of the same costs when you refinance.

Take stock of your situation

If you check any of these boxes, it might **not** make sense to refinance your mortgage.

☐ Are you planning to move soon?

If you know you're going to move in the next few years, you might not have time to recoup the cost of refinancing.

☐ Has the value of your home fallen?

If the market value of your home is lower now than when you took your original mortgage, it may be harder to find a refinancing loan that is more favorable than your current loan. Homeowners who have money available to pay down their loan may find better options for refinancing.

☐ Has your credit standing declined?

Your credit score affects the cost of your loan. If your score has fallen, review the interest rate and other terms you are offered to be sure the loan is still a good deal.

☐ Does your mortgage have a prepayment penalty?

Check your loan documents to see if your mortgage has a prepayment penalty. If so, you have to pay the penalty if you refinance your mortgage.

Look at the cost to refinance, and compare it to the benefits

If you are ready to consider a refinance, you can start by weighing the costs of a new mortgage against your goals for refinancing. When you ask a lender for a refinance, you receive a Loan Estimate that shows all the features of the loan, including whether there is a prepayment penalty, as well as the total dollar cost of the loan. This amount is the price you pay to achieve the potential savings and other benefits shown in the illustrations on the next pages.

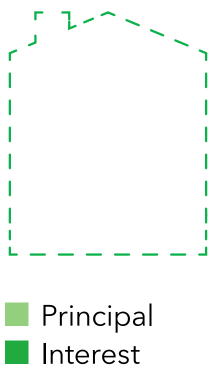
Consider refinancing only if you can meet an important financial goal

Below, you'll see common reasons for refinancing. The illustrations can help you see the general advantages and tradeoffs of refinancing, now and in the future.

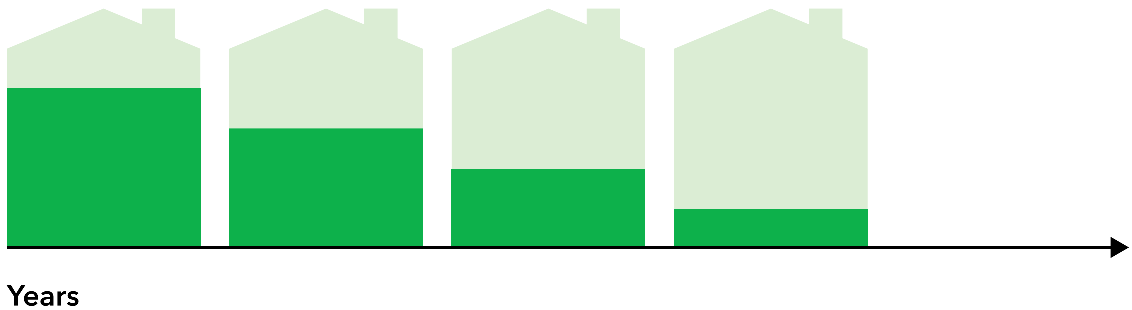
1. **Financial goal:** To lower your interest rate and monthly payment

When you refinance to lower your interest rate, you are signing up for a new loan with a new loan term, which could be longer. That could mean a lower monthly payment, but paying more money in total.

Total principal and interest payment



Today's mortgage:
Fewer years of higher payments



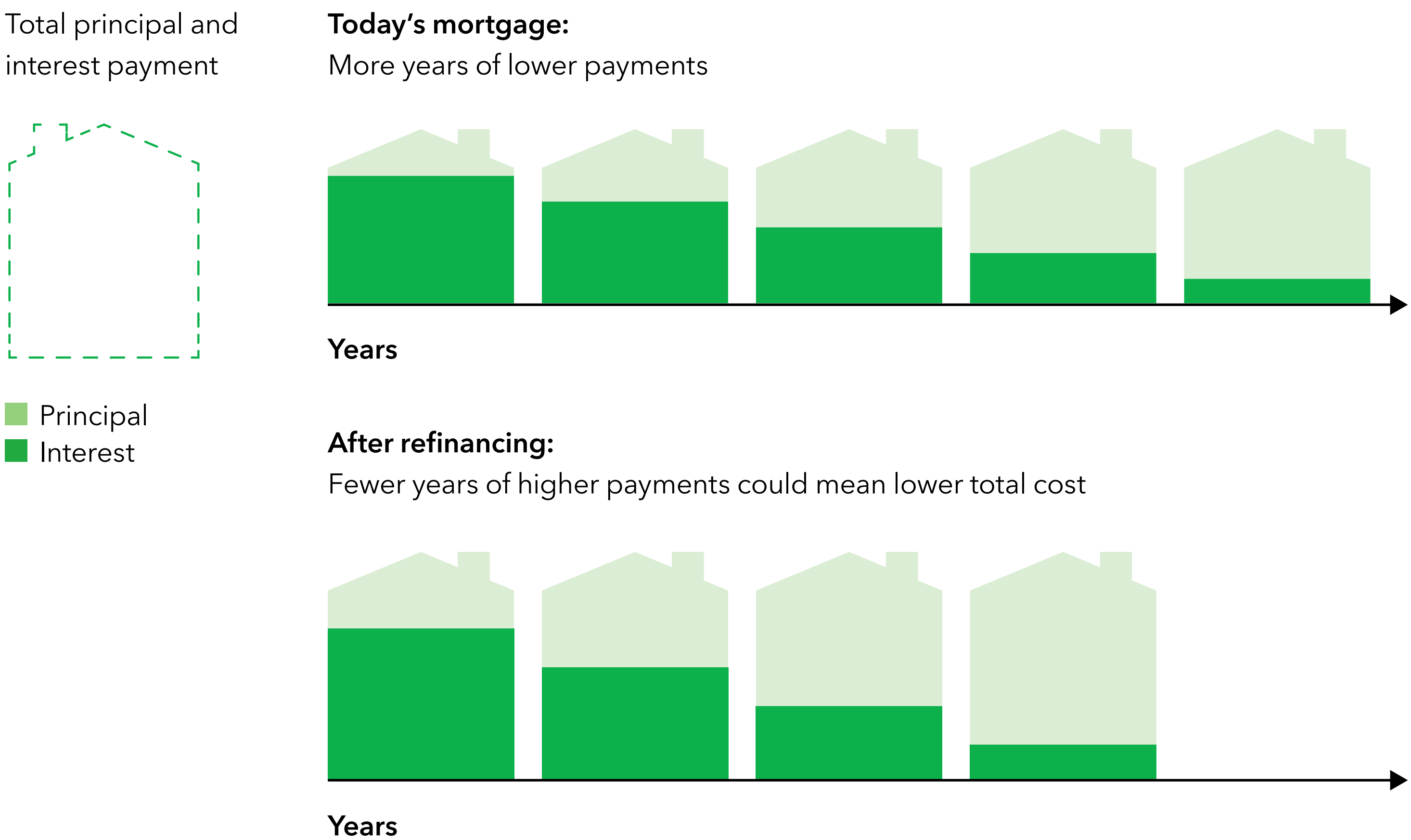
After refinancing:
Lower payments – but making lower payments for more years could mean higher total cost

Tip

Talk to your lender about the length of your new loan. It is often possible to choose a custom loan term, like 22 years instead of 30 years.

2. **Financial goal:** To shorten the length of your mortgage

Through refinancing, you could choose to shorten the term of your loan. This can mean paying off the loan faster, and paying less total interest, but your monthly payment could be higher.



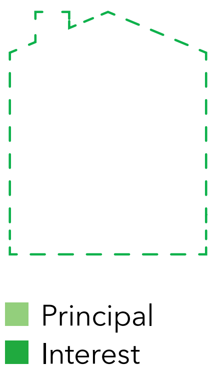
Tip

When you refinance, your principal and interest payment may change–but other costs of home ownership may stay the same, like property taxes and homeowner's insurance.

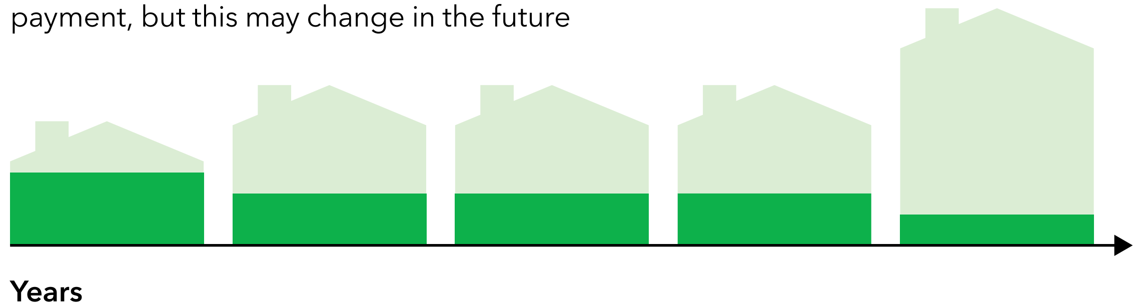
3. **Financial goal:** To avoid a payment jump in an adjustable-rate mortgage

Refinancing from an adjustable-rate to a fixed-rate mortgage can mean a higher monthly payment, but with more certainty in the future. Your principal and interest payments do not change with a fixed-rate loan, but can change a lot with an adjustable-rate loan.

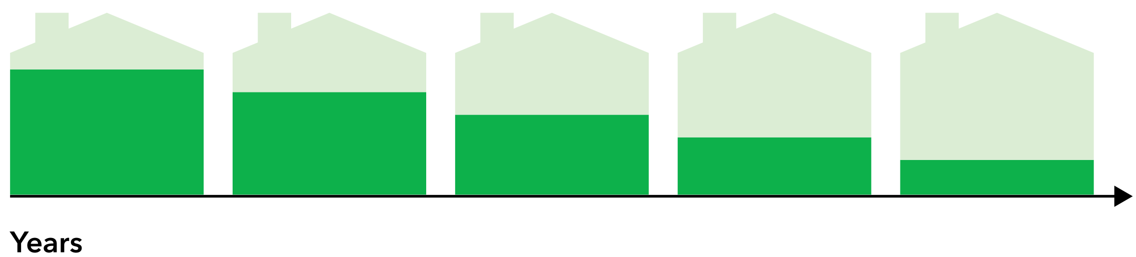
Total principal and interest payment



Today's mortgage:
Adjustable-rate mortgages can start with a low monthly payment, but this may change in the future



After refinancing:
Changing to a fixed-rate mortgage provides more certainty



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