Title:
Common Mistakes When It Comes To Refinancing

Word Count:
578

Summary:
There are many reasons for refinancing your mortgage. Refinancing can reduce your interest rates, your monthly payment, or both. Often, refinancing is an effective way to consolidate debt and to reach your long term financial goals.

However, there are many common mistakes when it comes to refinancing, some of them so serious they could cause you to lose your home. Identifying pitfalls is the best way to make a refinancing decision you will not later regret.

When refinan...

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Article Body:
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However, there are many common mistakes when it comes to refinancing, some of them so serious they could cause you to lose your home. Identifying pitfalls is the best way to make a refinancing decision you will not later regret.

When refinancing, you do not want to eliminate all the equity you have worked so hard to build. Home ownership is all about building equity – it is the equity in your home that makes it one of, if not the most valuable investment you will ever make.

This does not mean refinancing your home is always a bad financial decision – in fact, often refinancing can be a big step toward reaching your long-term financial goals. And it is the equity in your home that allows you to refinance in the first place. What you want is a loan that allows you to borrow against some – but not all – of your equity.

The most common mistake homeowners make with regards to canceling equity is cash-out refinancing. On the surface, cash-out options can appear extremely attractive, because they allow you to take cash out of your loan amount and put it in your pocket. You can use the cash to pay off debt, but taking cash out reduces the equity in your home, and can even eliminate it altogether.

To avoid this refinancing pitfall, consider a second mortgage as an alternative to refinancing with a cash-out option, especially if the interest rate is higher on the new cash-out loan. Already have a second mortgage? Then refinancing with a cash-out loan is very likely to eliminate all your equity. Instead, you can refinance both mortgages into one new mortgage with a cash-out option.

Another form of refinancing homeowners might regret is refinancing from a fixed rate mortgage (FRM) to an adjustable rate mortgage (ARM). Homeowners often do this to lower their monthly payments, but with an ARM, the interest rate is not locked in. Sure, the payments may be lower now, but if interest rates go up, future payments could be higher than the payments you were trying to reduce.

Refinancing options that homeowners are not likely to regret include refinancing from an ARM to an FRM in order to lock in a low interest rate. This is a decision that is usually made with long-term financial goals in mind.

Another refinancing decision that is generally sound is refinancing to the same type of mortgage with a lower interest rate than the current loan. So long as the borrower expects to remain in the home long enough for the interest savings to cover the cost of refinancing, the borrower usually will not regret this decision.

Low interest rates and a lucrative real estate market have prompted many homeowners to consider refinancing. But with predatory lending on the rise, it is up to you, the homeowner, to protect your investment. Fortunately, the Federal Truth in Lending Act is a safeguard for those who refinance a loan on their primary residence with a different lender. This Act guarantees borrowers the “right of rescission,” meaning they can cancel the debt within 3 days of closing. Not many borrowers take advantage of this option, but those who do are not stuck with a refinancing decision they will come to regret.