Should You Refinance Your Mortgage?

Everyday, homeowners are bombarded by offers and advertisements to refinance their mortgage at a lower rate. There are times when this is a great idea, and others when it may not be.

Reasons to pursue a mortgage refinance would include a lower interest rate, which may lead to lower monthly payments and the total amount of interest paid. Perhaps your credit score has greatly improved since you took out your first mortgage, or interest rates are considerably lower. You may also be considering financing improvements to your home and taking additional equity out of your home to pay for it.

Refinancing your mortgage can require quite a bit of time and energy in research and actually providing needed documentation to your proposed lender. Paycheck stubs, taxes and personal financial records will be needed to complete the application process. There are also points, or fees charged by the bank when issuing a new mortgage.

Often, homeowners consider refinancing or using their home equity to pay off current credit card and other debts. Although being rid of this type of debt at a lower interest rate immediately seems like a great idea, there are other ways to do so that will also require the discipline required to never get into this situation again.

Other than refinancing your entire mortgage, you might want to consider a home equity line of credit, or HELOC. Rates for this type of credit are slightly higher than first mortgages, but are still much less than those charged by credit card companies. In addition, lapses on second mortgages in the event of a hardship or lost job will most likely not cause you to lose your home altogether.

Another reason to consider a HELOC is that you only use what you need. You may have $25,000 in equity on your home, but only $10,000 in credit card debt. This means that you can avoid using available financing unless absolutely necessary. In addition, borrowing only part of what is available will lower your interest charges owed on the HELOC.

That being said, using the hard-earned equity in your home should only be used as a last resort to pay off credit card debt. Debt consolidation help is available from several licensed advisors and counselors in every city and town, and may provide a better option that will not require you to seek additional credit sources.

Consolidating debts may include negotiating with individual creditors for lower interest rates or payments, or even forgiving parts of the principal balance owed. This will save you time and money, as well as expensive charges to take out a new mortgage or refinancing.

Another option, if your credit and income are high enough, is to pursue a debt consolidation loan. This may be unsecured or secured with property other than your home such as a boat or vehicle that is already owned outright. This option can still save money on interest rates and charges, while preventing your home from being at risk should you ever fall on hard times.