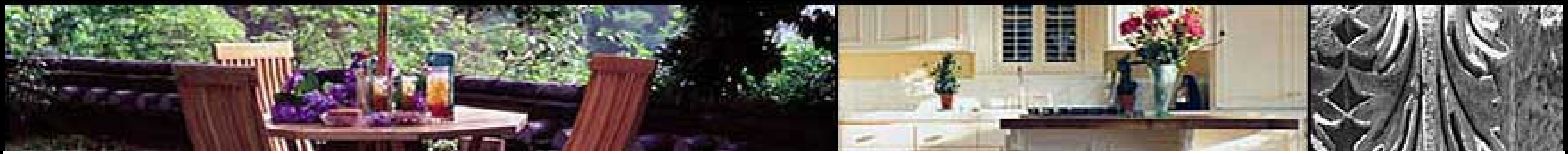
Wayne Garcia GMAC Real Estate



Refinancing

Refinance to Tap Your Home Equity

A cash-out refinance lets you tap your home equity to get the cash you need. It can be a great way to pay for home improvements, consolidate debt, or make a large purchase.

How cash-out refinancing works

A cash-out refinance replaces your current mortgage with a new loan for a higher balance. Your new mortgage pays off your old one, and you receive the remaining loan amount in cash. That cash comes out of the equity you've built in your home.

Because it lets you borrow from your equity, a cash-out refinance is similar to a home equity loan. The major difference is that a home equity loan doesn't pay off your first mortgage–it gives you just the cash you need, which you repay along with your mortgage.

Learn about home equity loans and lines of credit

Benefits of cash-out refinancing

Borrowing against the equity you've built in your home is generally cheaper than other types of financing, and it has tax advantages as well.* Credit cards and personal loans usually have much higher rates than home loans, and the interest isn't tax-deductible.

A cash-out refinance may also reduce your monthly mortgage payments, if the loan term is longer than the remaining term on your existing mortgage. Depending on the new interest rate and loan balance, you may be able to save money each month by spreading out your payments over a longer period of time.

*Consult your tax advisor.

Refinance to Save Money

Refinancing with a new interest rate or loan term can be a great way to save money on your mortgage.

A lower rate means lower payments

If rates have fallen since you took out your current mortgage, refinancing now may get you a lower rate. That means your monthly payments will go down, assuming the interest rate is all that changes.

Lower payments are great, but will they actually save you money? That depends on the cost of taking out a new loan, how long you plan to stay in your home, and how much less you will be paying each month.

Get lower payments with a longer term

Another way to reduce your monthly payments is to lengthen your loan term, which is the length of time you spend repaying it. With your payments spread out over a longer time period, each one will be smaller.

The drawback to this approach is that because you will repay the mortgage principal more slowly, you may end up paying more interest overall.

Shorten your loan term to pay less interest

You can reduce the total amount of interest you pay by shortening your loan term. With fewer monthly payments required to repay the loan, each payment will reduce the balance by a larger amount. As your balance decreases more rapidly, so will interest charges.

Besides reducing your interest costs, a shorter loan term helps you build equity faster. That means you'll have a growing source of wealth to draw from when you need it.

Refinance Your ARM to Avoid Rate Increases

Are you facing a potential rate increase on your adjustable-rate mortgage? If so, refinancing can help you avoid higher payments.

Refinancing with a fixed-rate mortgage

If you plan to stay in your home for the long term and never want to worry about rising interest rates, replacing your ARM with a fixed-rate mortgage may be a smart move. With an interest rate that never changes, a fixed-rate loan gives you predictable payments throughout the loan term.

Refinancing with another ARM

If you plan to move within the next several years, you may want to consider replacing your current ARM with a new one. In most cases an ARM will start off with a lower interest rate than what you'd get on a fixed-rate loan, and that rate can stay fixed for anywhere from three months to 10 years. Depending on how long you intend to stay in your home, you can choose an ARM that isn't scheduled to adjust until after you plan to move.

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