

## Refinancing Booklet

Rate-and-term vs. cash-out, and finding your break-even point.

### In this guide you'll learn:

- Rate-and-term vs. cash-out
- The break-even point
- Other considerations

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# Refinancing 101

Refinancing replaces your current mortgage with a new one -- ideally with better terms. It can lower your rate, change your loan term, or let you tap equity. Here's how to think about it.

## Rate-and-term vs. cash-out

A rate-and-term refinance changes your interest rate and/or loan length without taking cash out. A cash-out refinance borrows against your equity, giving you a lump sum but increasing your loan balance.

## The break-even point

Refinancing has closing costs. Divide those costs by your monthly savings to find the number of months to "break even." If you'll stay in the home past that point, refinancing may pay off.

## Other considerations

Resetting a 30-year loan can lower payments but stretch out total interest. Streamline programs (like the VA IRRRL or FHA Streamline) can simplify refinancing for existing government-backed loans.

## Rate-and-Term vs. Cash-Out Refinancing

Refinancing replaces your current mortgage with a new one. There are two broad reasons to do it, and they serve very different goals.

- A rate-and-term refinance aims to lower your rate, change your term, or switch between fixed and adjustable -- without taking cash out.
- A cash-out refinance replaces your loan with a larger one and gives you the difference in cash, drawing on your home equity.

Both reset your loan. Being clear about which goal you have keeps the decision focused.

## Finding Your Break-Even Point

Refinancing is not free, so the central question is whether the monthly savings outweigh the upfront cost over the time you plan to keep the home.

- Add up the closing costs of the new loan.
- Estimate your monthly savings from the new payment.
- Divide the costs by the monthly savings to find the number of months to break even.

If you expect to stay well past the break-even point, refinancing may make sense. If you might move sooner, it may not. Beware of restarting a fresh 30-year term, which can increase total interest even at a lower rate.

## **When Refinancing Tends to Make Sense**

- Rates have fallen meaningfully since you borrowed.
- Your credit has improved enough to qualify for better terms.
- You want to move from an adjustable rate to the predictability of a fixed rate.
- You have enough equity to drop mortgage insurance by refinancing.
- You have a specific, well-considered use for cash-out funds and understand you are borrowing against your home.

## **The Costs and Trade-offs to Weigh**

A lower rate is attractive, but look at the whole picture before you commit.

- Closing costs can run a few thousand dollars; ask for an itemized estimate.
- Extending your term lowers the payment but can raise lifetime interest.
- Cash-out increases your balance and monthly obligation.

Run the numbers for your actual situation rather than relying on a headline rate.

## **Common Refinancing Myths**

- Myth: a lower rate always saves money. Costs and a longer term can offset the savings.

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