

Loan Refinancing: Possibilities

Are you locked into a high-interest loan? Have you accumulated a number of debts and would like to consolidate all of your payments into one? Loan refinancing can provide the solution you need.

Refinancing is a term within the finance industry that simply means taking a second loan to pay off an existing loan. Under the right circumstances, refinancing can be a very beneficial arrangement. How do you know if loan refinancing is best for you?

The first and most important point to understand is that loan refinancing only works when interest rates are low. When rates are high, loan refinancing should be the furthest thing from your mind. Why take out a loan at a higher rate, to pay off one at a lower rate? You'll be spending more on interest over the long run. The goal here is to save money while paying off monthly bills on your current debt. The purpose of loan refinancing is to arrange repayment at a reduced monthly amount, while interest rates are considerably lower.

Of course, interest rates can be very fickle. They fluctuate daily in accordance with the changing economy. Therefore, you can bet that interest rates are never low for long periods, nor do they remain high for long durations of time. This inherent flexibility of interest rates means that loan refinancing is not always beneficial. For instance, homeowners with second mortgages can find that mortgage refinancing can backfire. The same holds true for people with a great deal of debt, or those having trouble paying their bills on time. With loan refinancing, they may end up paying more than their current arrangement requires.

Measuring Costs and Gains

You already know that the best time for refinancing is when interest rates are low. The next question is, what's the best way to measure costs and gains from refinancing?

As stated earlier, there are clear advantages, and definite disadvantages, to refinancing. The trick is to have the essential knowledge before you proceed. For many, the best way to clearly understand the gains of refinancing is by comparison.

Compare all costs of your current loan, and those of a new mortgage, over a future period. Since the loan period may vary according to how diligent you are in paying your bills, it may be necessary to make your best guess as to the term, or length, of your new mortgage. If you find that by comparison the total costs of the new mortgage are lower, then you should take advantage of loan refinancing.

Avoid Refinancing Mistakes

You should never jump in to any financial agreement without learning all of the facts and giving the situation very careful thought. The benefits of refinancing can make a real difference to the borrower, provided that the situation is ripe for loan refinancing. However, because of these perceived benefits, many people mistakenly believe that loan refinancing is a cost-free option.

Always remember that banks and other lenders need to make a profit, and loan refinancing carries a price, just like other forms of borrowing. Don't make the mistake of thinking it's a free ticket. The only difference is that it will cost you less over time, as compared to other loans.