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HOME REFINANCE: HOW OFTEN?

How often can a homeowner refinance their home?

Refinancing a mortgage is a great way to consolidate debt or get cash to make home improvements. A homeowner in their early 50s could refinance to shorten the term of their mortgage. This could help them pay it off before they retire to eliminate the monthly payment. A first-time homeowner might refinance to switch from an adjustable-rate mortgage to a fixed-rate mortgage. This move could help them improve cash flow and pay less interest over the life of the loan. But how often can a homeowner refinance their home?

Favorable conditions for refinancing

To make a refinance worthwhile, a homeowner should usually look for an interest rate that is at least .75 basis points lower than their current rate. If they plan to take cash out as part of their refinance, they'll need to have accumulated equity in the property from either paying down a significant amount of the principal or having gotten an increase in the appraised value. The homeowner should be prepared to remain in their home long enough to cover the costs of refinancing. If they currently have an adjustable-rate mortgage and are nearing the end of the initial low rate period (generally 5, 7, or 10 years), refinancing to a fixed-rate will keep their monthly payments predictable.

Potential costs associated with refinancing

Homeowners should be prepared to pay fees at closing, including:

- Any prepayment penalty and balloon payment if applicable to pay off their first loan
- The cost of a new appraisal to determine the current value of their home
- The optional cost of "discount points," which may be used to "buy" a lower interest rate. (Discount points lower the interest rate for the entire term of the loan, with each .25 basis point costing 1% of the total amount they're borrowing.)
- Closing costs can include lender fees charged for application processing, a recording fee, and an origination fee, which covers lender overhead costs and profit
- The lender may allow the borrower to roll some or all of these charges into their new loan. Note, however, that these costs will add to the monthly payment and increase the amount of interest paid over time.

The benefits of refinancing

Refinancing can be a great reset of a financial situation, provided the above conditions are met and the borrower understands the costs involved. A lower interest rate means lower monthly payments and interest savings over the life of the loan. The ability to consolidate credit card debt and other applicable loans may increase monthly payments. The benefits of paying off those debts at a lower fixed interest rate, however, can make refinancing worthwhile.

Assuming equity has accumulated in the home, a cash-out refinance enables homeowners to access funds for everything from a medical emergency to home renovations. And, depending on current rates, a refinance is often a better way to pay for those home improvements than a bank-issued home equity line of credit. So, how often can a homeowner refinance their home mortgage? They can refinance as often as they like – but they should let market conditions, available equity, and the amount of time they plan on staying in their home be the guides.

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