5 Costly Mortgage Refinancing Mistakes to Avoid

Contributed by Sutiyo Na
Thursday, 18 June 2009

Mortgage refinancing has several great benefits if used properly. But if you made just a lapse of judgement, you might be in for a costly mistake and may place your entire house at risk. Here are 5 costly mortgage refinancing mistakes you must avoid.
5 Costly Mortgage Refinancing Mistakes to AvoidAuthor: Sutiyo Na

Mortgage refinancing has several great benefits if used properly. But if you made just a lapse of judgement, you might be in for a costly mistake and may place your entire house at risk. Here are 5 costly mortgage refinancing mistakes you must avoid.

Mistake #1: Not locking in your rate

Rates are very erratic. It can change while your loan is being processed. So if you did not lock your interest rate in, you might be given a different rate from what you've expected. Ask your lender to lock in the rate you are satisfied with, place it into writing and confirm it when the processing of your loan is done. Take note: lenders will not lock in your rate without your request.

Mistake #2: Not shopping around

There are hundreds of mortgage companies out there. Each may provide the same service but they are unique from one another. This is why you have to shop around to get the best rates. It may sound like comparing apples to apples but the truth is, even apples are different from one another. Spend some time comparing different companies. Do not hesitate to ask for the best rates. And if you feel you are not getting what you deserve, then move on and go to another company.

Mistake #3: Refinancing too often

While refinancing is a good way to take advantage of lower rate and thus save money on monthly fees, it is not good to take it every time the rate falls down a notch. Remember that terminating your existing loan and buying a new one involve fees. Closing costs will pile up which really defeat the purpose of refinancing.

Mistake #4: Not computing your break-even point

Again, there is a price to pay to terminate your existing loan and getting a new one, but far too many occasions where homeowners fail to recognize this.

Computing your break even point is simple. For example, your monthly savings for refinancing your mortgage is $200 and your closing cost is $2000. Divide the closing cost by monthly savings and you will get the break even point ($2000/$200). In this example, it will take you 10 months to recoup the cost of refinancing. In other words, you have to wait 10 month before realizing the savings. This is also connected to #3.

Before 're-refinancing' your mortgage, you should know first if you have recoup the cost of your previous loan. Determining your break-even point will also determine how long you will have to stay in your home before starting to get savings.

Mistake #5: Refinancing just for the heck of it

Many homeowners believe that when the rate is low, it is time to refinance. This is wrong! There are other conditions to determine if it is the right time to refinance your home and not just by looking that the prevailing rate. Never refinance if you don't plan to stay at your home after a year or two or before you reach the break-even point.

Never refinance if you have been paying for your current loan for several years or if you have only a few years left to pay for your home. Never refinance if you have a bad credit score or if the current market value of your home is low. And never refinance if you have already used up all the equity of your home.

Article Source: http://www.articlesbase.com/mortgage-articles/5-costly-mortgage-refinancing-mistakes-to-avoid-

978522.html

About the Author:

I’m world wide internet marketer and write about finance, Health and Sport. If you want more specific information on managing mortgage refinance , come to my website : www.mortgagerefinancehelp.info and www.rebuildcreditscore.info