

## Deciding to Refinance

When you refinance your mortgage, you're actually replacing it with a brand new loan. In doing this, expect to go through a mortgage application process similar to what you experienced with your original mortgage. Refinancing can be a sound financial choice that allows you to meet a variety of needs:

- Reduce your monthly payments by taking advantage of lower interest rates or extending the repayment period.
- Reduce your interest rate risk by switching from an adjustable-rate to a fixed-rate loan or from a balloon mortgage to a fixed-rate loan.
- Reduce your interest cost over the life of your mortgage by taking advantage of lower rates or shortening the term of your loan.
- Pay off your mortgage faster (accelerating the build-up of equity) by shortening the term of your loan.
- Free up cash for major expenses or to consolidate debts.

### Rate-Term Refinance vs. Cash-Out Refinance

A rate-term refinance has a loan amount that is just enough to repay the balance of the existing mortgage. The purpose of the loan could be either to reduce your interest rate, adjust your loan term, or both. A cash-out refinance, on the other hand, has a loan amount that exceeds the current mortgage balance. The higher loan amount converts some of your home's equity into cash proceeds, which you receive at loan closing.

### The Right Time to Refinance

Many homeowners consider refinancing when interest rates suddenly fall or there's a change in financial circumstances. But even though a large decline in rates or an opportunity to pay off debts might make refinancing seem like an easy decision, you shouldn't consider any single variable on its own. Think about how long you plan to stay in your home, how you plan to use your equity, and how a refinance will support your overall financial goals.

You may already have some goals in mind for refinancing, but do you know which loan option will best help you meet those goals? Selecting the right mortgage for you is central to the refinancing process, so it's important to understand your options. You'll need to consider two things at the outset: which loan type best meets your refinancing needs, and which loan term offers the ideal repayment schedule.

### Loan Types

Most home loans fall into one of two general categories: fixed-rate mortgages and adjustable rate mortgages (ARMs). You'll also encounter other basic loan types such as renovation loans.

- Fixed-rate mortgages have interest rates that stay the same for the entire loan term.
- You will have predictable monthly payments throughout the life of the loan.
- You'll be protected from rising rates.
- Fixed-rate loans are a good refinance option when rates are low.

- Adjustable-rate mortgages have interest rates that adjust periodically based on market conditions.
- The initial rate is fixed for an introductory period (usually one to ten years), and is typically lower than for a fixed-rate mortgage. After that the rate adjusts annually based on a market index, but can't go above a predetermined adjustment cap.
- Because of the lower initial rate, ARMs can be a good way to refinance when rates are not especially low.
- Renovation loans offer a good alternative to taking out a second mortgage for borrowers who are planning home improvements.
- The amount you can borrow is based on the projected value of your home after renovation.
- You can finance the repayment of your additional mortgage, and get extra funds to fund your improvement project.

Whether you'd be better off with a longer loan term or a shorter one depends on a number of factors, most notably your monthly income and long-term financial goals.

- Longer mortgage terms offer lower monthly payments, and can be a good option if you're on a tight budget or would prefer to direct your monthly cash flow toward other investments or expenses.
- Shorter mortgage terms mean higher monthly payments, but allow you to repay the loan faster and save money on interest.

Whatever loan type or term you choose, the **NEA Home Financing Program<sup>®</sup>** offers a wide variety of customized options to meet your unique refinancing needs. Our home mortgage consultants can help you find the right combination of loan features to support your financial goals. To learn more, call **1-800-632-4968**.

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