



Five Reasons to Refinance Your Mortgage

by Jeff Brody, Lead Communications Director | April 27, 2021 | 4 mins

Here's when you should consider refinancing.

Content Is for Informational Purposes Only.

Buying a home is a long-term financial commitment, but that doesn't mean your financing has to be stuck in concrete. As the markets change and your financial goals evolve, it's a good idea to keep an eye out for a better home financing arrangement. Here are several solid reasons to consider refinancing with different terms.

To Lower Your Monthly Mortgage Payment

The most common reason homeowners refinance their mortgage is to take advantage of a drop in interest rates. A lower rate will not only reduce your overall interest expense but also provide you a lower monthly payment.

Generally, if the interest rate on your new mortgage is 2% lower than your current one, it makes sense to consider refinancing. You could benefit from smaller differences if the new mortgage has other benefits such as lower fees.

Don't forget that a new mortgage means new closing costs that need to be factored into your decision. To cover the various fees associated with taking out a new mortgage, in general you can expect to pay around 3% to 6% of the loan amount in closing costs. Before you sign on the dotted line, make sure you're going to stay in the home long enough to recoup those costs.

To Switch Mortgage Loan Type

From fixed-rate conventional to adjustable-rate mortgages (ARM), home loans come in many different varieties and terms, and sometimes you can save money by changing the type of your mortgage loan. For example, a Federal Housing Administration (FHA) loan usually requires you pay a mortgage insurance premium (MIP) for the life of the loan. If you have at least 20% equity in the home, you could refinance from FHA to a conventional loan to eliminate the MIP, saving a bit in your monthly payment. Just be sure the closing costs and other fees don't offset those savings in the long run.

To Shorten the Mortgage Loan Term

Many homeowners feel a sense of financial security once they're debt free. So paying off that mortgage can become a big priority. For example, if you currently have a 30-year mortgage, you may want to consider refinancing into a 15- or 20-year term loan. Refinancing to a shorter term can also lower your overall expense if you're several years into your current mortgage but want to take advantage of lower rates without extending your term.

If everything else stays the same, a shorter term will mean higher payments. But if interest rates have dropped significantly since you took out your loan, you may find the increase in monthly payment negligible.

And remember that you don't always have to refinance to pay off your loan sooner. By making additional payments toward your principal, you can put yourself well ahead of schedule without incurring the costs of refinancing. Be sure to check the terms of your loan to make sure there are no prepayment penalties.

To Cash Out Some Equity in Your Home

If you have positive equity in your home, you could refinance to a larger mortgage and take the difference in cash to use for other goals.

For example, it might make sense to use a cash-out refinance to pay off other higher-interest debts, such as credit cards. But be careful with a cash-out refinance. If you run those higher-rate debt balances back up again, you could suffer from both smaller equity in your home and a mountain of debt. Be sure to think through your spending habits and avoid behaviors that caused the debt in the first place.

To Take Advantage of Improved Credit

You may qualify for a lower rate if your credit score has dramatically improved since you signed your mortgage, even if interest rates haven't changed. Shop around for lenders to see if you can qualify for better mortgage terms with your improved credit score.

USAA Home Learning Center provides informational real estate advice, tools and tips to guide your journey. Content may mention products, features or services that USAA does not offer. We endorse no specific service.

Other Resources

[Homebuying 101](#)

Arm yourself with information about the process so you can make decisions with confidence.

[Insuring Your Home](#)

Help protect the place you call home.

Getting preapproved can simplify your homebuying experience.¹

[Get preapproved](#)

Related Products

[VA Loans](#)

[VA Jumbo Loan](#)

[Refinance](#)

[Refinance VA IRRRL](#)

Additional Resources

[Mortgage Rates](#)

[Mortgage Payment Calculator](#)

[Mortgage Payment Assistance](#)

[Video Tips](#)