



What Is Mortgage Refinancing?

Mortgage refinancing is a financial process by which an existing mortgage is replaced with a new one. This is done in order to either obtain a more favorable interest rate, to switch from a variable to fixed structure, to remove home equity for a cash payout, or a combination of the three.

Mortgage refinancing is also [commonly used to](#) alter the existing loan term, in the event that the borrower wishes to repay faster. Furthermore, this process can be a good way to lower monthly payments, consolidate debt, and get rid of mortgage insurance, especially if one's credit score has recently improved.

Mortgage refinancing can also be a gamble, however. If handled irresponsibly, or if the applicant has a less-than-adequate credit score, then interest rates could increase rather than decrease.

How to Qualify for Mortgage Refinancing?

In order to qualify for mortgage refinancing, lenders will judge whether an applicant meets certain criteria. Broken down, these categories reference a borrower's credit score, income, savings, debt, and the ratios between them. By and large, these guidelines are meant to indicate whether the applicant has both the reputation and the means to repay a loan.

Some lenders are more flexible than others. A loan insured by the [Federal Housing Administration \(FHA\)](#), for instance, has more flexible standards and guidelines for approval. That said, for those with lower credit scores, the initial

down payment will be markedly higher. In the case of a credit score of 550, the down payment will be around 10 percent. Higher credit scores, on the other hand, will require about four percent.

A loan backed by the [Home Affordable Refinance Program \(HARP\)](#) is one insured by the Federal Housing Finance Agency. By design, it is meant for homeowners that have proven reliable in regards to their mortgage payments, but have very little equity in their homes.

In order to qualify for a HARP loan, an applicant's mortgage must have been granted by Freddie Mac or Fannie Mae prior to June 2009. Additionally, eligible borrowers must have a loan-to-value ratio over 80 percent.

In some cases, if a borrower is unable to qualify for mortgage refinance through traditional means, then going through a private lender is an avenue worth exploring. In exchange for markedly higher premiums and payments, private lenders have a much more flexible and speedy application process.

Costs of Refinancing

The costs associated with mortgage refinancing is based on a myriad of factors. All told, expect to pay approximately between 1.25% and 1.75% of the mortgage's total value in bureaucratic costs. Broken down, these fees include:

- Application Fee (~\$375)
- Appraisal Report (~\$450)
- Origination Fee (~1% of the loan's total value)
- Flood Certification (~\$100)
- Title Search (~\$300)
- Title Insurance (~\$600)
- Recording Fee (~\$120)
- Document Preparation Fee (~\$350)

When Does It Make Sense to Refinance?

The best time to refinance a mortgage is within the first third of the loan's term, as monthly installments during that period largely go towards interest

repayment. In the case of a 30 year term, for instance, refinancing for a lower interest rate within the first 10 years will yield more demonstrable effects than it would later in the term.

Mortgage refinancing is best for those with good credit, those with interest rates above the nationwide average, or those who have existing government-backed mortgages. Conversely, if the borrower has bad credit, then their mortgage interest rates could increase, rather than decrease.

If the borrower cannot afford said increase, then they should not attempt to refinance. Should a potential borrower feel confident in his or her economic profile, then our [top ten refinance experts](#) would be happy to assist with the next steps.