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GUIDE · 11 PAGES

Refinance Decision Guide

A framework for evaluating rate-and-term, cash-out, term reduction, and equity alternatives.

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What this guide covers

A refinance replaces your existing mortgage with a new loan. Whether it makes sense depends on more than the rate: closing costs, the remaining term on your current loan, the term of the new loan, how long you expect to keep the property, and whether the goal is payment relief, faster payoff, or access to equity. Compare total cost over your expected ownership period, not the monthly payment alone.

Key takeaways

- ☐ A lower monthly payment can still mean more total interest if the term restarts.
- ☐ Break-even period is a useful screen, not a complete answer.
- ☐ Cash-out refinancing converts equity into debt secured by your home.
- ☐ A HELOC or home equity loan may fit better when the existing first mortgage is worth keeping.
- ☐ Program eligibility and pricing vary; every scenario in this guide is educational.

Who this guide is for

— Homeowners considering a rate-and-term refinance

— Homeowners weighing cash-out against a HELOC or home equity loan

— Borrowers who want to shorten a term or remove mortgage insurance

— Investors evaluating a refinance on a rental property

Contents

What is refinancing?

Refinancing replaces an existing mortgage with a new loan secured by the same property. The existing loan is paid off at closing and the new loan takes its place, with its own rate, term, payment, and costs.

Refinancing is a tool, not an outcome. The right question is not whether rates moved, but whether a new structure serves a specific objective better than the loan you already have.

Objectives a refinance may serve

- ☐ Reduce the interest rate
- ☐ Reduce the monthly payment
- ☐ Shorten the loan term
- ☐ Move from an adjustable rate to a fixed rate
- ☐ Remove mortgage insurance where eligibility allows
- ☐ Access accumulated equity
- ☐ Consolidate other debt into the mortgage
- ☐ Add or remove a borrower
- ☐ Restructure ownership, including entity or trust considerations
- ☐ Change loan program to one better matched to the property or income type

What are the main types of refinancing?

Refinance types and typical purpose

Type	Typical purpose
Rate-and-term refinance	Change rate, term, or both without meaningful cash back
Cash-out refinance	Replace the mortgage and receive proceeds from equity
Limited cash-out refinance	Roll in closing costs with only incidental cash back
FHA streamline refinance	Streamlined path for eligible existing FHA borrowers
VA IRRRL	Interest rate reduction refinance for eligible existing VA loans
Conventional refinance	Standard agency-eligible rate-and-term or cash-out
Jumbo refinance	Loan amounts above conforming limits
Investment-property refinance	Rate-and-term or cash-out on a non-owner-occupied property

Type	Typical purpose
DSCR refinance	Investor financing qualified on property cash flow
Construction-to-permanent conversion	Move completed construction financing into permanent terms

Note: Eligibility, availability, pricing, and requirements vary by program, lender, investor, occupancy, and borrower profile.

Should I refinance?

Work through the inputs below before comparing any two offers. A refinance decision is a comparison of two complete loans over a defined holding period — not a comparison of two interest rates.

Decision inputs

- ☐ Current interest rate and whether it is fixed or adjustable
- ☐ Proposed interest rate and structure
- ☐ Remaining loan balance
- ☐ Remaining term on the current loan
- ☐ Term of the proposed loan
- ☐ Estimated closing costs
- ☐ Discount points, if any, and what they buy
- ☐ Break-even period
- ☐ How long you expect to own the property or keep the loan
- ☐ Estimated monthly savings
- ☐ Total interest under each option over your holding period
- ☐ Mortgage insurance on the current and proposed loans
- ☐ Credit profile and how it affects pricing
- ☐ Current property value and resulting loan-to-value
- ☐ Cash-flow goals, including reserves you want to protect
- ☐ Future plans: relocation, renovation, retirement, or sale

Why is monthly savings not the whole answer?

A payment can fall for two very different reasons: a lower rate, or a longer amortization schedule. Only one of those reduces the cost of borrowing.

What a payment comparison hides

- ☐ A lower payment may come from restarting the loan term rather than a better rate
- ☐ Lower monthly payments can still produce higher lifetime interest
- ☐ Closing costs reduce the economic benefit and delay the crossover point
- ☐ Refinancing repeatedly can push the payoff date years further out
- ☐ A shorter term may raise the payment while reducing total interest substantially

Note: Compare remaining total interest on your current loan against total interest on the proposed loan over the period you expect to keep it.

How does break-even analysis work?

The general formula is: Break-even period = Eligible upfront refinance costs ÷ Estimated monthly savings.

If eligible upfront costs are $6,000 and the payment falls by $250 per month, the simple break-even is 24 months. If you expect to sell in 18 months, the refinance likely does not pay for itself on that basis alone.

Limitations of the formula

- ☐ It ignores the change in loan term and remaining amortization
- ☐ It ignores the split between principal and interest in each payment
- ☐ It ignores costs financed into the loan balance rather than paid at closing
- ☐ It ignores escrow changes, which are not true savings
- ☐ It ignores the time value of money and any alternative use of the same cash
- ☐ It does not account for mortgage insurance changes

Note: Run the numbers with the Refinance Break-Even, Refinance, Mortgage Payment, and Amortization calculators before drawing a conclusion.

How does a cash-out refinance work?

A cash-out refinance replaces the existing mortgage with a larger loan and returns the difference, less costs, as proceeds. The equity does not disappear — it converts into debt secured by your home.

What to evaluate

- ☐ Current property value supported by an appraisal or accepted valuation
- ☐ Balances of all current liens on the property
- ☐ Available equity after program loan-to-value limits are applied
- ☐ Proposed new loan amount
- ☐ Estimated closing costs
- ☐ Net cash proceeds after payoff and costs
- ☐ New monthly payment and how it fits your budget
- ☐ Remaining equity after closing
- ☐ Whether consolidating shorter-term debt into a long-term mortgage serves the goal
- ☐ Tax and legal considerations, which should be reviewed with your own advisors

Note: Home equity is not free money. Consolidating unsecured debt into a mortgage moves that debt behind a lien on your home and may extend repayment over a much longer period.

Refinance compared with a HELOC

If your existing first mortgage carries a rate you would not want to give up, a second-lien option often deserves a serious look before replacing the whole loan.

Cash-out refinance vs. home equity line of credit

Consideration	Cash-out refinance	HELOC
First mortgage	Replaced by the new loan	Existing first mortgage stays in place
Rate structure	Commonly fixed	Commonly variable
Closing costs	Typically higher, full mortgage closing	Typically lower, varies by lender
Access to funds	Lump sum at closing	Draw as needed during the draw period
Payment structure	Fully amortizing payment	Often interest-only during the draw period
Future funds	Requires a new transaction	Available up to the credit limit
Total borrowing cost	Depends on rate, term, and amount	Depends on balance carried and rate movement
Rate sensitivity	Locked if fixed	Payment can change as the index moves

Refinance compared with a home equity loan

Cash-out refinance vs. fixed-rate home equity loan

Consideration	Cash-out refinance	Home equity loan
Lien position	New first lien	Typically a second lien
Rate structure	Commonly fixed on the whole balance	Commonly fixed on the new amount only
Payment	One combined payment	Two payments — existing mortgage plus the new loan
Closing costs	Full refinance costs	Often lower, varies by lender
First mortgage	Paid off and replaced	Retained at its existing rate and term
Cash received	Limited by program loan-to-value	Limited by combined loan-to-value
Term	Typically a new full mortgage term	Often shorter than a full mortgage term
Risk	Both are secured by the home	Both are secured by the home

Educational refinance scenarios

The following are hypothetical illustrations created to show how the framework behaves. They are educational only, do not reflect current pricing, and are not offers or estimates.

Seven labeled scenarios

- ☐ Lower-rate refinance — payment falls and total interest falls because the remaining term is roughly matched rather than restarted.
- ☐ Shorter-term refinance — the payment rises, but total interest falls substantially and the payoff date moves earlier.
- ☐ Cash-out refinance — equity funds a defined objective; the payment rises and total interest increases because the balance is larger.
- ☐ Mortgage-insurance removal — the rate is similar but the payment falls because a mortgage insurance premium is no longer required under the new structure.
- ☐ Refinance with discount points — upfront cost buys a lower rate; the benefit depends entirely on holding the loan past the extended break-even.

- ☐ Refinance with lender credits — a higher rate offsets closing costs; useful for a shorter expected holding period.
- ☐ Refinance that does not break even — the payment falls, but a planned move before the break-even point means the costs are never recovered.

Note: Every scenario above is illustrative. Your actual options depend on program eligibility, pricing at the time, property, occupancy, and profile.

What questions should I ask before refinancing?

Ask your advisor

- ☐ What is the new interest rate?
- ☐ What is the APR, and what is included in it?
- ☐ What are the total closing costs?
- ☐ Are discount points included, and what do they buy?
- ☐ What is the break-even period on this structure?
- ☐ Am I restarting the loan term, and by how many years?
- ☐ What is the projected total interest compared with my current loan?
- ☐ Is there a prepayment penalty on the current or proposed loan?
- ☐ What appraisal or valuation is expected?
- ☐ How long do I realistically expect to keep this loan?
- ☐ Could a HELOC or home equity loan meet the goal at a lower total cost?

Refinance document checklist

Commonly requested

- ☐ Current mortgage statement
- ☐ Homeowners insurance declarations page
- ☐ Property tax bill or assessment
- ☐ Income documentation appropriate to your income type
- ☐ Asset and bank statements
- ☐ Government-issued identification
- ☐ Homeowners association documentation where applicable

- ☐ Statements for any additional liens on the property
- ☐ Lease agreements for investment properties
- ☐ Entity documents where the property is held by an entity

Refinance decision worksheet

Print this page or copy the rows into a spreadsheet. Fill in both columns from actual quotes rather than estimates before making a decision.

Compare your current loan with the proposed loan

Line item	Current loan	Proposed loan
Interest rate		
Remaining or new term		
Loan balance or amount		
Principal and interest payment		
Mortgage insurance		
Monthly difference		
Annual difference		
Estimated closing costs		
Break-even period		
Five-year total cost		
Total projected interest		
Payoff date		
Net cash received		
Does this serve the long-term goal?		

Important disclosure

Document requirements, eligibility, rates, costs, and loan terms vary by mortgage program, lender, investor, property, transaction type, and borrower profile. This guide is educational and is not a loan approval, a commitment to lend, a Loan Estimate, or legal or tax advice.

Frequently asked questions

How much does a refinance cost?

Costs vary by lender, program, property, and location, and typically include origination, title, recording, appraisal, and prepaid items. Ask for a written itemization and compare it against the estimated monthly savings.

Does refinancing restart my loan term?

It can. A new 30-year loan restarts a 30-year amortization schedule. Matching the new term to the remaining term of the current loan is one way to avoid extending your payoff date.

Is a cash-out refinance a good way to consolidate debt?

It can lower a blended monthly payment, but it also converts unsecured debt into debt secured by your home and may extend repayment over a much longer period. Evaluate total cost, not just the payment.

What is the difference between a rate-and-term and a limited cash-out refinance?

A rate-and-term refinance changes the rate, the term, or both. A limited cash-out refinance generally allows closing costs to be financed with only incidental cash back, subject to program rules.

Do I need an appraisal to refinance?

Often, though some programs and automated valuation paths may reduce or waive the requirement depending on the loan, property, and findings.

Can I refinance an investment property?

Yes, through conventional investor financing or DSCR programs that qualify on property cash flow. Terms, pricing, and reserve expectations generally differ from primary residence financing.

Should I pay discount points on a refinance?

Points can make sense when you expect to hold the loan well past the point at which the reduced payment recovers the upfront cost. If a move or another refinance is likely first, they usually do not.

Next steps

— Calculate refinance savings · vabasso.com/calculators/refinance

— Compare home equity options · vabasso.com/loan-programs/heloc

— Request a refinance review · vabasso.com/contact

Related tools and reading

— Calculator: vabasso.com/calculators/refinance

— Calculator: vabasso.com/calculators/refinance-break-even

— Calculator: vabasso.com/calculators/cash-out-refinance

— Calculator: vabasso.com/calculators/mortgage-payment

— Calculator: vabasso.com/calculators/amortization

— Calculator: vabasso.com/calculators/heloc

— Calculator: vabasso.com/calculators/discount-points

— Loan program: vabasso.com/loan-programs/conventional

— Loan program: vabasso.com/loan-programs/va

— Loan program: vabasso.com/loan-programs/fha

— Loan program: vabasso.com/loan-programs/heloc

— Loan program: vabasso.com/loan-programs/dscr

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