



FINANCIAL PLANNING RESOURCES:

Home Refinancing

Reasons for Refinancing

Thinking about refinancing your home? Or maybe you don't even know if that is something you should consider. In this article, we will discuss a few reasons why refinancing may be a smart option for you.

Some of the best reasons to consider refinancing are:

- To lower your interest rate or monthly payment.
- To shorten the term of your loan.
- To convert your loan from an adjustable-rate mortgage to a fixed-interest mortgage.
- To cover an emergency, consolidate debt, or finance a large purchase.

1. Lower Your Interest Rate or Monthly Payment

This is the most common reason to refinance your home. Securing a lower interest rate could save you thousands of dollars over the course of your loan term. As we have seen this year, interest rates for refinancing have gone as low as 2.0% - 3.0% depending on factors such as your credit score or even the refinancing term selected.

The other most common reason to consider refinancing is to free up your cash flow by lowering your monthly payment. When you refinance, you can choose a new loan term. By extending your loan term and/or lowering your interest rate, you can achieve a more manageable monthly payment.



2. Shorten the Term of Your Loan

As mentioned above, to lower your monthly payment you can extend the life of your loan. But if your goal is to quickly pay off your mortgage and your cash flow allows you to do so, shortening your loan term may be the best option for you.

Typical mortgages are offered at 15-year, 20-year, & 30-year terms. With the combination of shortening your mortgage to a 20-year, 15-year, or 10-year term and refinancing while interest rates are low, this could not only save you interest, but it will allow you to pay off the outstanding mortgage sooner and free up your cash flow.

3. Convert from an Adjustable-Rate Mortgage to a Fixed-Interest Mortgage

An adjustable-rate mortgage (ARM) is a mortgage loan with a rate that fluctuates with the corresponding financial indexes. As interest rates go up, the monthly payment goes up and as interest rates fall, the monthly payment goes down.

When choosing an ARM, be aware that this mortgage option is riskier than a fixed interest mortgage. That's why some clients choose to refinance to a fixed interest rate so that their monthly payment remains stable over the life of the loan.

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4. Cover an Emergency, Consolidate Debt, or Finance a Large Purchase

Another reason refinancing could be a good option for you, is if you need some extra cash, for either planned or unplanned large expenses. In the event of an emergency, it can be a huge relief to know that some extra cash may be available through refinancing your home.

Some people consider home-refinancing to raise cash so they can consolidate their debt into a single monthly payment with one interest rate, versus having multiple outstanding debts. By refinancing your debts into one payment, it could potentially save you in interest and help pay the debt off quicker depending on the length of your loan.

Another reason people consider refinancing their home is to make a large purchase such as an investment property, remodeling projects within their home, etc. While this might seem like a good strategy for you, it is smart to consult with a financial professional before using refinancing to gain capital to finance a large purchase.

5. Other Items to Consider

A couple other items to consider when thinking about refinancing would be: Will current interest rates be low enough to make a difference on my mortgage? It is also important to understand the costs of

refinancing. While this should not stop you from refinancing to a lower interest rate, it can limit the options for your refinance.

If you have any additional questions regarding refinancing, or any other financial topic, please do not hesitate to reach out to your financial planning team at The Trust Company.



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