YAHOO! FINANCE

5 Reasons to Refinance Now

credit.com By Scott Sheldon | Credit.com – Fri, Mar 29, 2013 12:01 AM EDT

Taking advantage of today's mortgage rates is certainly something to consider. Even if you took out a mortgage as recently as last year, rates — even while trending up — have remained favorable. When it comes to refinancing, consumers must consider two components: That the mortgage makes sense, and the benefits outweigh the costs.

Here are some sound financial reasons to refinance the mortgage on your home.

To Reduce/Remove Monthly Mortgage Insurance

Refinancing into a new loan with no monthly mortgage insurance could easily save a consumer upwards of $175 per month or more. In order to get rid of your mortgage insurance, you need 20% equity in your home. And as home prices rise, many homeowners are getting closer to that coveted position. For consumers who took out FHA loans from 2010 through 2011, refinancing into a conventional mortgage even with lender mortgage insurance is still a viable choice as the rate and insurance benefit is substantially lower than the mortgage insurance premiums imposed by the FHA. Beginning in April, FHA insurance premiums are slated to rise again, making conventional choices more appealing.

To Move to a Fixed Rate

For consumers coming out of an adjustable-rate mortgage, moving into a fixed-rate loan will likely increase the payment as the rate could be upwards of .75% higher, on average. However, the prospect of what future rates will do compared to the net tangible benefit attainable by moving into a fixed rate could prove to be a smarter choice.

To Pay Off Your Home Faster

Taking on the burden of a 15-year fixed rate isn't as financially difficult as it used to be, as managing the payment over time becomes easier with a lower interest rate generating a more flexible payment. By moving from a 30-year mortgage to a 15-year mortgage, a consumer can shave 15 years off the time it takes to pay off the house while at the same time dramatically reducing interest expense.

To Cash Out

Using a loan for paying off debt, doing home improvement, replenishing savings/assets, perhaps even in conjunction with a financial plan — this is a choice to be considered carefully and will be more closely scrutinized by the lender (for net tangible benefit).

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To Reduce Your Payments

Reducing the mortgage payment requires careful consideration of determining the monthly savings generated by refinancing i.e. lower rate longer-term with initial investment required to complete the transaction. Perform a breakeven analysis by taking the monthly savings divided by the closing costs associated with financing. A more robust return on investment approach would be taking the annual savings generated by the refinance divided into the closing costs (initial investment). In most cases the return on investment will be greater when compared to the returns offered by a checking or savings account.

A Few Things to Remember

The old school mantra on refinancing was: unless the interest rate is a full one percentage point lower, then refinancing simply didn't make sense. Now that school of thought is a thing of the past, as rates and the normalcy of mortgage insurance have come in to play in recent years. If the savings warrants it, remortgaging even for as little as .625 percentage points lower in rate could still be worth it, especially considering it might mean saving a few thousand dollars per year. Generally, many break even on their refinances today anywhere within 10-18 months.

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