

Why You Can Trust CNET Money

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Article up

How to Refinance Your Home

Refinancing your home may save you money in the long run.



1-home-chad

Buying your home was probably one of the most (if not *the* most) expensive purchases you've ever made. In some cases, refinancing your home may be the best way to rearrange your mortgage and finances. When you refinance your mortgage, you take out a new home loan to replace your current one. You'll get a new interest rate, a new monthly payment and new terms. It also restarts the payment clock.

OUR EXPERTS



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Reasons to refinance a mortgage

The most common motivations for refinancing include:

- **Lowering your interest rate:** If you obtained your mortgage during a period of high interest rates, refinancing can lower your interest rate and monthly mortgage payment.
- **Consolidating high-interest rate debt:** You can refinance to pay off high-interest debt by using the equity in your home to pay off the debt. This can reduce your monthly debt obligations and improve your credit utilization ratio. Alternatively, you could use a balance transfer credit card.
- **Accessing home equity for cash:** When you use a cash-out refinance, you can access a portion of your home's equity in cash. You can then use that money to pay for home improvements, a new car, debt consolidation or any other payment.

Below we outline the steps to completing a home refinance.

1. Figure out your 'why'

Before browsing through lenders, ask yourself what the purpose of refinancing is first. Such as:

Do I want a lower interest rate? If you're watching interest rates fluctuate and hover at some of the lowest rates ever, refinancing seems enticing. If you bought your home when interest rates were higher, refinancing to secure a lower interest rate also means a lower monthly payment. You can also refinance to switch from an adjustable-rate mortgage to a fixed-rate one.

Do I want a lower monthly payment? You usually get this through lower interest rates, but it also comes when you extend your loan terms. For instance, if you had a 15-year home loan and you refinance for a 30-year term, your monthly payments will be less in the new terms.

Do I want to pay off my loan sooner? The sooner you pay off your loan, the less you'll pay in interest. But that also means higher monthly mortgage payments. You can refinance from a 30-year to a 20-year or 15-year mortgage. You'll have higher monthly payments, but you'll also be debt-free sooner.

Do I need some cash? If you take out a new loan for more than you owe, you can pocket the difference in cash through a cash-out refinance. This is a good way to tap into the equity in your home.

2. Boost your credit

Refinancing a mortgage is taking out a new loan, so you'll need to get your credit score in tip-top shape to grab the lowest interest rate available.

If you have any outstanding debt aside from your mortgage -- like student loans or a car payment -- try to pay them off and reduce your debt-to-income ratio. Lenders like to see that you have enough cash on hand to pay your mortgage in case anything happens, like you lose your job or have a medical emergency stopping you from earning money.

Make sure you check your credit report. You can do this for free at [AnnualCreditReport.com](https://www.annualcreditreport.com). See if there are any errors or bad marks you can get removed to give your credit score a boost. The higher your credit score, the lower your interest rate will be.

Read more: [How to get a free, weekly credit report for the next 12 months](#)

3. Calculate your potential payments

When you've determined why you want to refinance your home, see if the change will fit into your budget. For instance, if you want to pay your mortgage off sooner, what would your new payments look like under a 15-year mortgage? You can also calculate what a new 30-year loan would look like with a reduced interest rate. Explore different refinance calculators at:

- [SmartAsset](#)
- [Quicken Loans](#)
- [Zillow](#)

Keep in mind that refinancing a mortgage means another round of closing costs -- anywhere from 2% to 6% of the loan. Unless you find a loan that rolls your closing costs into your loan (which still means you're paying for those costs) or you land a "no closing cost" loan, you'll need that cash on hand if your application is approved.

4. Browse through lenders

After you've got a good idea of what you'd like to pay, start looking to see which lenders offer the best deal. Pay attention to interest rates and fees, but also take into consideration the entire process, including:

- **Ease of applying:** Does the lender offer an online application or do you have to apply at a local branch?
- **Process time:** Do you know how long it'll take to close on your new loan?
- **Requirements:** If your credit score isn't in the best shape, will you still qualify for refinancing, and if so, is it the best rate you can get?

There are plenty of places to shop around for lenders and rates online, but keep in mind that rates generated through online tools don't always account for your specific situation and can change when the loan is actually pursued.

You can also try your bank or credit union. Your local institution probably offers home loans and refinancing and has the tools available for you to calculate what you'd pay if you refinanced your mortgage. Another option is to try a private mortgage broker.

5. Apply and close

Once you've found a few of the best lenders, send in your applications. Try to complete your applications within a few weeks of each other. Since each application triggers a hard credit check, multiple applications will tell the credit bureaus that you're rate shopping, or shopping around for the best rate. Instead of multiple hard credit inquiries, only one will show up on your credit score. This means you won't get hit with many hard credit checks which would cause your score to plummet.

Once you choose the best lender, lock in your interest rate. Since interest rates fluctuate often, yours could go up any time before closing. Once you lock in your rate, it won't change even if the market causes it to rise. Rate locks typically last 30 to 60 days (sometimes longer, depending on your lender), which is usually how long it takes to close on a new loan. Some lenders even guarantee that if interest rates drop before closing, you'll secure the lowest possible rate. Then it's time to close.

There are plenty of different reasons to refinance your home, so make sure you choose the best lender, interest rate and repayment terms that are the best fit for your finances. If interest rates are too high, there are too many fees, or you can't find a lender to work with, you may want to put off refinancing for the time being.

The bottom line

Consider your goals and choose the best lender for your finances. Lock in your interest rate, and you'll usually close the loan 45 to 60 days after the initial agreement. There are plenty of different reasons to refinance your home, so make sure you choose the right terms. If interest rates are too high, there are too many fees, or you can't find a lender to work with, you may want to put off refinancing for the time being.



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Dori Zinn loves helping people learn and understand money. She’s been covering personal finance for a decade and her writing has appeared in Wirecutter, Credit Karma, Huffington Post and more.



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