CLIENT GUIDE

Refinance Decision Guide

How to Know When a Refinance Actually Makes Sense — and When It Doesn't

Some refinances are excellent financial decisions. Others cost more than they save. The difference is math.

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Refinance Decision at a Glance

<24 mo	24–48 mo	>48 mo	3 types
Break-Even Excellent Range	Break-Even Reasonable Range	Break-Even Warrants Scrutiny	Rate/Term · Cash-Out · Streamline

The Three Types of Refinances

Rate-and-Term Refinance	Replace your existing loan with a new one at a lower rate, a different term (e.g., 30-year to 15-year), or both. No cash is extracted. Goal: reduce monthly payment, reduce total interest cost, or shorten payoff timeline.
Cash-Out Refinance	Refinance into a larger loan than your current balance and receive the difference in cash. You're accessing your home equity for home improvements, paying down higher-rate debt, business investment, or other capital needs. Maximum LTV limits apply: Conventional primary (1-unit): 80%; 2–4 unit primary: 75%; second home: 75%; investment property (1-unit): 75%; investment (2–4 unit): 70%. FHA cash-out: 80% (primary only). VA cash-out: up to 100% (eligible veterans). Cash-out is not available on investment properties via FHA or USDA. Note: cash-out transactions also carry slightly higher rates than rate-and-term refinances due to loan-level pricing adjustments (LLPAs) — typically 0.125%–0.5% higher at comparable LTV. Non-QM guidelines vary by lender and program.
Streamline Refinance	Available on government-backed loans (FHA, VA, USDA). Allows refinancing with reduced documentation and no new appraisal in some cases. If you have an FHA, VA, or USDA loan and rates have dropped, ask specifically about streamline options.

The Break-Even Analysis — The Most Important Calculation

The real question is not “is the rate lower?” — it's: does the savings outweigh the cost, and how long will it take to break even? Get a cost estimate to refinance, and compare the new payment vs the current one.

Break-even point: Closing costs ÷ Monthly savings = Months to break even

Hypothetical Break-Even Example	
Current loan balance	$400,000
Current rate / P&I payment	7.25% interest rate / $2,729/mo

New rate / P&I payment	6.50% interest rate (6.646% APR) / $2,528/mo
Monthly savings	$201
Estimated closing costs	$6,000
Break-even point	6,000 ÷ 201 = ~30 months
Verdict	**Makes sense if you plan to stay 2.5+ years**

Break-Even Period	Assessment
Under 24 months	Excellent — refinance could make strong financial sense
24–48 months	Reasonable for a borrower with a long time horizon
Over 48 months	Warrants scrutiny — especially if selling or refinancing again is possible

2 When a Cash-Out Refinance Makes Sense

Situations where cash-out often makes sense:

- **Home improvements that increase value — particularly when the added value exceeds the cost and you plan to stay. Mortgage rates beat home improvement loan rates.**
- **Paying off high-rate debt — if you're carrying credit card debt at 20%+ and have equity at mortgage rates, the math often favors consolidation. Critical caveat: eliminate the behavior that created the debt, or you'll accumulate it again.**
- **Business investment with high expected return — using low-cost home equity to fund a business opportunity with higher expected returns. Know the risk.**
- **Large, one-time expenses — medical costs, educational funding, or a significant life event where equity serves as a capital reserve.**

When it doesn't make sense:

- Funding lifestyle expenses or consumption (vacations, cars, consumer goods)
- Consolidating debt without changing the underlying spending patterns
- Accessing equity out of anxiety about market conditions without a clear deployment plan

3 Common Refinance Mistakes

Resetting your amortization carelessly

If you're 10 years into a 30-year mortgage and refinance into a new 30-year, you've extended your payoff by 10 years. Even if your rate drops, you may pay more total interest over the combined life of both loans.

Ignoring prepayment penalties

Most conventional mortgages don't have prepayment penalties, but some portfolio and DSCR loans do. Read your note before refinancing, and ask your lender about early payoff penalties if you're paying off within the first year of purchase.

Rolling closing costs into the loan without accounting for them

“No closing cost” refinances typically have a higher rate. This is sometimes the right choice (if you plan to sell soon), but it's not actually cost-free.

Refinancing too frequently

Every refinance generates a credit inquiry, changes your loan history, and resets the break-even clock. A reflexive refinance every time rates tick down 0.25% benefits your lender more than you.

The trigger to explore a refinance is not a rate you saw on the news — it's a calculation. Desiree runs this analysis for clients at no cost and with no pressure. If the numbers don't work, she'll tell you so. If they do, she'll show you exactly why.
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Loan Program Disclosures

Hypothetical refinance example: $400,000 new loan amount, 30-year fixed rate, 360 monthly principal and interest payments of $2,528.27 at a 6.500% interest rate, 6.646% APR, assuming $6,000 in prepaid finance charges. Payments shown exclude taxes and insurance; the actual payment obligation will be greater. Fixed-rate example; the APR will not increase after consummation. Rates are illustrative, not a quote; your rate, APR, and payment will vary.

Down payment minimums, loan limits, and program features described in this guide are general agency guidelines, not offers of credit or commitments to lend; not all borrowers or properties will qualify. All loans are subject to credit approval, underwriting, property eligibility, and program guidelines. Rates, terms, and fees change frequently without notice; request a Loan Estimate for terms specific to you.

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