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Is it a good idea to refinance your home mortgage?

Opting for a refinancing plan totally depends on your financial situation and goals

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Shiv Kumar Gupta, Special to Property Weekly



Property Weekly



Refinancing can be a tool to shorten the loan period or reduce the monthly instalments
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So you've got your mortgage approved and have bought a home. But it doesn't end here. There are some important steps to be followed ahead, such as home maintenance, paying mortgage instalments on time and so on. A home loan is offered for a longer tenure of 15-25 years, which means for the next one to two decades you will be having mortgage instalments on your monthly budget. Life is unpredictable and due to unforeseeable financial circumstances, it can get difficult to pay your mortgage instalments on time. In those situations, you can opt to refinance your home mortgage. Home mortgage refinance is a way of clearing your existing home loan by getting a new one.

There can be a few things that make refinancing a good option, such as a lower interest rate. The most common reason to refinance a home mortgage is an increased interest rate on your existing mortgage. If you find some other lender offering low-interest rates, you can think of refinancing. Getting a lower interest rate will reduce your monthly payments by a fair margin. This change can help you financially and save some money.

But one needs to make sure that the new home loan doesn't have any loopholes. Lenders attract borrowers by offering low-interest rates but these rates would be charged only for a certain time period. Later on, there can be a high-interest rate charged, which can be more than your existing loan rate.

Loan period

A new loan may increase or decrease your existing loan period. For example, if you have your existing loan for 15 more years, then refinancing for 10 years plan will allow you to get complete ownership of the house in lesser time. On the other hand, if you have opted for a longer tenure, your monthly instalments can go even less than what you've been paying currently. So, if you want to have the loan for a longer period or shorter period on low-interest rates comparatively, then refinancing can be an option.

Extra money

With the increase in real estate prices, there can be an increase in property valuation as well. This will ensure you get a high loan amount when you refinance your property. After clearing the existing loan with the new loan, you may have some additional cash left. This additional cash can be compensated with the processing fees and other fees that are involved in the refinancing process or you can even save or invest in some risk-free investment options. So if you are going to get some extra cash from a new low-interest rate loan then refinancing can be considered.

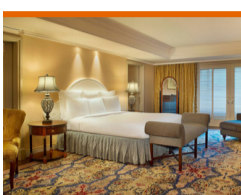
Apart from these major factors, there can be a few things like the type of interest rate or quality of service at the current bank that may encourage you to look for refinancing options.

Finally, refinancing you home loan totally depends on your financial situation and goals. Be aware of the closing costs of refinancing. Also, have a clear estimate of the monthly payments and interest rates before switching.

Shiv Kumar Gupta is the co-founder and director of mymoneysouq.com. The views expressed here are his own.

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