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Refinancing A Loan: What Are The Advantages?

By Mary Nebotakis, Managing Director, Natloans, B. Eco, Dip. Financial Services

Firstly, What Is "Refinancing A Loan?"

To put it simply, 'Refinancing a Loan' is the practice of swapping your current mortgage for another one with more desirable rates, length, and terms. In so doing, one may half the length of their loan term, and take a significant bite out of the overall cost of their loan. Therefore, refinancing a loan seems to hold self-evident advantages, but it is best to keep in mind the few drawbacks and risks which refinancing entails. These pros and cons will be divulged further in this article, but to begin with, an attempt will be made to familiarise the readers with the functions and mechanisms of refinancing a loan.

How Does It Work?

The way in which refinancing is achieved is simply by moving your mortgage from your current lender to a new lender, with such a decision being motivated by shorter terms, lower rates or various other, aforementioned elements. 'Simply', of course, is something of a misnomer, because whilst the action itself is uncomplicated, the task may well be. The decision to undergo as such is, of course, a very significant one, and should only be embarked on after very long consideration.

When you take the leap, your new lender will pay off the rest of the money which you owe to your old lender, and then make it so that you must now pay off a new, lower sum of debt to them in-stead.

What Are The Advantages?

There are two, seperate advantages which come depending on the type of shift which you make with your mortgage.

Firstly – If you choose to move to a repayment plan which is shorter, let's say; 10 years rather than 20 years, then that means that you'll be free of debt, and the proud owner of your own home in half that time that it would've taken with your old plan!

Secondly – If you choose to move to a repayment with a lower interest rate, than that means that you'll be paying less interest on the same property, over the same course of time, and thereby saving yourself potentially tens or hundreds of thousands of dollars in the process!

What Are The Disadvantages?

The one big, true and glaring disadvantage associated with refinancing a loan is the expenses which one can incur, in their attempt to save time and money. If you plan to refinance for the sake of saving time, then this is probably of less concern to you, but nonetheless it mustn't be discounted just how expensive the process can become.

It always costs a not-insignificant fee in order to take out a loan, and the fact of one's having taken loan with their original lender does not mean that the service to the new lender can go unpaid for. Adding to that, sometimes lenders will ask you to pay them a fee for having departed with their services, and thereby shorted the investment which they had made in you, your home, and your loan.

Sometimes, it can go a long way to know what the break cost is for your current loan. At certain periods, the cost of breaking from one lender, and switching to another can be so great that it undermines the benefits of doing so all together. In summation; do your research!

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