REFINANCE / GUIDE 02

Should you refinance? Run the real math.

A clear framework for comparing a new mortgage with the one you already have - including payment, fees, principal and your time horizon.

- Real break-even examples
- The 30-year reset trap
- Loan Estimate field guide
- Fillable quote comparison



KEEP THE LOAN THAT ACTUALLY WINS YOUR NUMBERS.

DECIDE / 02

What are you trying to change?

A refinance replaces your existing mortgage. Name the outcome before anyone quotes a rate.

Lower borrowing cost

A lower rate may reduce interest expense. Whether it is worthwhile depends on closing costs, how long you keep the loan and how quickly the balance declines.

Change the payment

A shorter or longer term can change monthly payments - sometimes even when the rate change is small. Lower payments do not always equal lower total cost.

Change loan structure

Switch from an adjustable rate to a fixed rate, or revisit mortgage insurance. First check whether your existing PMI can be cancelled without refinancing.

Access equity

A cash-out refinance raises the new principal and produces cash at closing. Compare it with a HELOC or home equity loan before replacing your first mortgage.

Your first three inputs

CURRENT LOAN BALANCE

$ _____

TIME KEEPING LOAN

___ years

TOTAL NEW LOAN COSTS

$ _____

STOP BEFORE RATE SHOPPING

Get your latest mortgage statement: balance, interest rate, remaining term, P&I and mortgage insurance. Decide how many more months you expect to keep the **loan**, which may differ from how long you stay in the house.

CALCULATE / 03

Break-even: useful, not sufficient

A monthly payment drop can come from a lower rate, a longer repayment term, or both.

A first-pass formula

SIMPLE CASH-FLOW BREAK-EVEN

New one-time loan costs ÷ true monthly savings

Best for same-balance / same-term offers; check the caveats below.

What counts as savings?

- Compare **principal and interest (P&I)** on the same basis. Escrow transfers, property taxes and homeowners insurance are not rate savings.
- Account for **changes in mortgage insurance** separately, and only when supported by an actual quote.
- Distinguish new loan charges from **prepaid interest and escrow funding**, which may be timing or reserve items rather than the lender fee itself.
- If costs are **financed into the balance**, interest accrues on them and the payment comparison changes.
- Track **remaining principal** after your planned holding period. A longer loan may lower the payment but leave you owing more.

DO NOT USE SIMPLE BREAK-EVEN ALONE

When the new term, balance or cash-out amount differs, compare costs over the same future month and the balance still owed. The next two pages show why.

EXAMPLE / 04

Same balance. Same remaining term.

Hypothetical refinance: $300,000 owed, 25 years left, no cash taken out. New fees are paid upfront in cash.

CURRENT P&I / MO	NEW P&I / MO	SAVINGS / MO
$2,168	$1,979	$189

Item	Keep old mortgage	Refinance
Principal at comparison start	$300,000	$300,000
Interest rate	7.25% fixed	6.25% fixed
Remaining schedule	25 years	25 years
Hypothetical new loan fees	$0	$5,500 paid cash
First-pass break-even	-	29 months
Interest paid in next 5 years	$104,458	$89,493

WHAT THE EXAMPLE ACTUALLY SHOWS

With the same payoff horizon, this example saves about **$189 a month in P&I**. Simple break-even is about **29 months**. Over 60 months, the new loan has roughly **$9,465 lower combined interest and upfront-fee cost**, before any tax effects or property-specific changes.

Illustration only: fixed rates, scheduled payments, no points, $5,500 in upfront loan fees, no cash-out, no change in mortgage insurance or other debt, and no extra payments. Not a current rate or lender offer.

EXAMPLE / 05

The low-payment trap: restarting 30 years

The same refinance with a new 30-year term looks cheaper monthly - but extends the debt by five years.

CURRENT: 25Y LEFT
$2,168

REFI: 30Y NEW
$1,847

MONTHLY DIFFERENCE
$321

Compare the costs, not just the payment

Measure	Keep old: 7.25% / 25y	New: 6.25% / 30y
Monthly P&I	$2,168	$1,847
Balance after 60 payments	$274,353	$280,012
Interest over next 60 payments	$104,458	$90,841
Total interest if held to payoff	$350,526	$364,975
Extra hypothetical refinance fees	$0	$5,500

WHAT CHANGES THE DECISION

The new loan cuts the scheduled payment by about **$321/month** but leaves a larger balance after five years. If both loans run to maturity, new-loan interest **plus $5,500 in fees** exceeds keeping the old loan by about **$19,948**. Actual value depends on when you sell, refinance again or make extra payments.

Better comparison framework

- Compare options over the **same 36-, 60- or 84-month period**.
- Consider interest paid, one-time costs, mortgage insurance differences, and principal remaining.
- If affordable, request a quote with a term close to your current remaining term - not automatically 30 years.

COMPARE / 06

How to audit a refinance quote

For most closed-end refinances, the standardized Loan Estimate lets you line up the same scenario across lenders.

Loan Estimate field	Question to answer
Page 1 - Loan terms	Is the loan amount correct? Fixed or adjustable? New term? Prepayment penalty or balloon?
Page 1 - Payment	What is P&I? What is the projected mortgage insurance? Escrow?
Page 2 - A / B / C	What origination and third-party costs change between lenders? Are points charged?
Page 2 - Lender credits	Are credits buying down upfront cash at the expense of a higher rate?
Page 2 - Cash to close	Which fees are paid in cash, financed, offset by credits or prepaid / escrow items?
Page 3 - Comparisons	What are the APR and five-year cost figures? Are scenarios truly identical?

Ask for these three versions of the same loan

- [ ] Lowest reasonable rate with points clearly disclosed.
- [ ] A low-point / no-point option with the same term and lock period.
- [ ] A lender-credit option, if available, with total cost at your holding period.

> **"NO-CLOSING-COST" IS NOT FREE**
>
> It may mean a higher rate paired with lender credits or fees added to principal. Both can increase long-term cost. Keep rates, points, new balances and fee treatment visible.

DECIDE / 07

Cases where refinancing may make sense

There is no universal rule that a rate must fall by 0.5% or 1.0%. Calculate your actual tradeoff.

Situation	What to test
Lower fixed rate	New interest cost plus fees over your expected remaining loan period.
Shorten loan term	Higher payment vs faster principal payoff and lower lifetime interest.
ARM to fixed	Value of payment stability vs upfront costs and the ARM adjustment terms.
Remove mortgage insurance	First ask if existing conventional PMI can be cancelled without a new mortgage.
Cash-out	Compare the full new first-mortgage economics with second-lien borrowing.
Sell soon	A breakeven longer than the expected holding period is a warning sign.

Common misleading arguments

- "Your payment falls $300." **Ask:** Did the term restart or were fees financed?
- "Skip your next mortgage payment." **Ask:** How much per-diem interest / prepaid interest accrues?
- "Cash back at closing." **Ask:** Did I borrow more and what does that cost?
- "Free refi." **Ask:** Where are fees absorbed - higher rate, loan balance or both?

> **YOU CAN CHOOSE NOT TO REFINANCE**
>
> If your current rate is strong, remaining term is short, fees are high or you may move soon, keeping the existing mortgage is a legitimate - often better - option.

WORKBOOK / 08

Your three-column refinance sheet

Enter the same loan purpose and comparison month for every option. Fields are editable in most PDF readers.

Current balance

Current interest rate

Months remaining

Current P&I monthly

Quote A rate / term

Quote B rate / term

Quote A new loan amount

Quote B new loan amount

Quote A loan fees / credit

Quote B loan fees / credit

Quote A P&I monthly

Quote B P&I monthly

Record the decision

Expected months until sale or next refinance

Preferred option and WHY (monthly payment, interest + fees, and balance remaining)

Formula to check your own numbers: simple break-even = incremental net loan costs ÷ real monthly savings. For differing terms or balances, compare amortization and remaining principal at the same point in time.

ACTION / 09

The refinance questions worth asking

Bring this checklist to calls with two or three lenders.

- [ ] What is my **new payoff date** versus the current payoff date?
- [ ] Which costs are genuine loan charges, and which are escrow deposits or prepaids?
- [ ] What is the balance after 36, 60 and 84 scheduled payments on each option?
- [ ] What would a shorter term or no-point option cost?
- [ ] Will I pay, finance or receive a lender credit for settlement fees?
- [ ] Are there prepayment penalties, adjustable-rate features or lock-extension fees?
- [ ] Can I remove current PMI without refinancing? What are the rules?
- [ ] If taking cash out, what are the alternatives that preserve my current first mortgage?

A 48-hour comparison process

1	2	3	4	5
Retrieve	**Request**	**Normalize**	**Model**	**Decide**
Current statement.	Matched estimates.	Same terms + fees.	Hold period + balance.	Only if benefit holds.

PRACTICAL STANDARD

If a lender cannot show the total costs, points, lender credits and new payoff date in writing, pause. Do not sign based on a quoted payment alone.

REFERENCES / 10

Make the numbers work for you

Sources and tools used to verify consumer protections in this guide. Checked October 15, 2026.

01 **CFPB / Loan Estimate explainer**

Locating APR, closing costs, payments, credits and loan terms.

02 **CFPB / Compare Loan Estimates**

Methods for comparing loan offers and five-year costs.

03 **CFPB / No-closing-cost refinancing**

Explains credits, higher interest rates and financing costs.

04 **CFPB / Closing Disclosure guide**

Reviewing final costs before the refinance closes.

05 **VA / Refinance loan options**

Additional details for eligible VA streamline transactions.

Your next move: Build two written scenarios with matching purposes and interest-rate lock terms. Calculate cost at the month you may leave this loan. **Open Mortgage Today calculators →**

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