4 Biggest Refinancing Mistakes

"It's not a mistake. It's a learning experience."

– Somebody who makes mistakes

Don't be that person – especially when it comes to refinancing. Check out these common refinance mistakes to avoid – so when the time comes, you'll be perfect at it.*

*We cannot promise, guarantee, or give any semblance of assurance that you will be perfect. Just really good.

1. Not locking in your rate

Procrastinating on locking in a rate can cost you money. Lots of it.

Even the smallest rise in rates can make the biggest difference. For example, say you want to refinance a balance of $200,000 with a 30-year fixed loan. Locking in a rate of 5.5% rather than 6.0% can save you nearly $23,000 in interest![1] If you need to, procrastinate on something else to ensure you lock in your rate before they rise.

2. Not doing your homework

If you really want to nail this refinance, you're gonna have to do your homework. And unlike your old high school classes, there are no shortcuts for this work. Prepare yourself by studying the below topics:

Your credit score

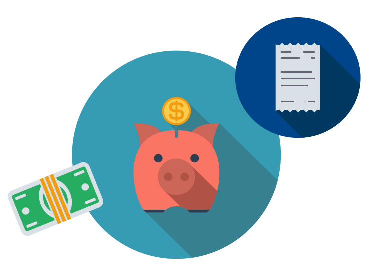
This number is the key to getting a competitive rate. The higher your score, the more likely you'll be eligible for a lower rate. If your score is on the lower end, try boosting it before refinancing.

Your refi options

You know that saying: "Different loan types for different folks." Before committing to a refinance, research your options and see which one works for you.

Loan-to-Value (LTV)

The ratio of your mortgage balance to your home's value. If your mortgage balance is $150K, and your home is valued at $250K, your LTV is 60%. Typically, you should wait until you have less than 80% to refi – otherwise, you'll most likely be required to get Private Mortgage Insurance (PMI).



Debt-to-Income (DTI)

DTI is the ratio of your monthly debt payments to your monthly income. Typically, lenders are more likely to favor somebody with a lower DTI, since they're in a better position to make timely payments.

3. Adding large debts to your credit before closing

Do you remember debt-to-income? Or did you blow by that section when you saw the word "homework?"

Well, we'll give you the synopsis. Getting into more debt before refinancing is going to raise your DTI – thus affecting your chance of getting a competitive interest rate and possibly approval.

4. Only refinancing for the interest rate

While locking in a lower rate is a smart reason to refinance, it doesn't always call for doing so.

Unlike the best things in life, refinancing isn't free. There are closing costs and other fees involved, which can end up costing thousands of dollars. So if you plan on moving within the next few years, a refinance is probably not worth it. Instead, save that money for your purchase.

There you have it – avoid making these mistakes, and your refinance experience will go ~~perfectly~~ really well.

When you decide you're ready to refinance, check out these different loan options to make sure you're getting the right one.

1. According to ditech's Principal and Interest Calculator.

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