

Bername : Thinking Of Refinancing Your House, Read This First!

Written by Administrator

Monday, 14 September 2009 15:06 -

Refinancing or re-mortgaging your house simply means switching your existing mortgage for a new and better deal, often to a new mortgage lender or bank. There are a few reasons why refinancing may seem a good option for house owners; these are to free up some cash, consolidate debts or secure lower interest rates, among others. Refinancing is beneficial especially when you are in need of extra cash. This is possible only if the current market value of your house exceeds the amount which you owe the bank. For example, assuming that the house you bought three years ago is now valued at RM250,000 and the outstanding balance for loan is RM190,000. If you were to refinance your house, you could have RM50,000 extra cash after deducting legal and redemption fees for instance.

However, you should think carefully before you do so. If you plan to splurge on an exotic holiday or buying your dream car, you will actually be paying interest on the amount you spent for the rest of the mortgage term. The money freed up is often used to consolidate debts. It is used to clear all outstanding balances on credit cards, personal loans and even overdrafts. As a result, you may be left with only one payment each month, the re-mortgage instalment, this makes it easier to manage your liabilities. With financial institutions competing for a slice of the market share, consumers are spoilt for choice thanks to the lower interest rates offered compared to the normal house-loan package. Now is the time to secure lower interest rates.

PREVAILING CONDITIONS

Though refinancing may look attractive, the Association of Chartered Certified Accountants (ACCA) in its guidebook on personal finance noted that refinancing is not a good option especially under the following circumstances:

- * You have already been paying an existing loan for a long time. If you are already ten to twenty years into a thirty-year mortgage for instance, refinancing another thirty-year loan may only increase your costs in the long run.
- * Your credit report has deteriorated since the time you secured a mortgage. It is more likely that you have missed payments or run up substantial credit-card bills which may have registered an unfavourable credit report. It is best to check out how you fare in the credit report before you make any attempt to refinance.
- * You are a compulsive spender. If your sole purpose for refinancing is to pay off credit-card debts, then you should reconsider the possible consequences. You would be converting a short-term debt into a long-term liability which in the long run would cost you more. If this is what you plan to do and you don't see yourself changing your credit-card spending habit, then you might as well abort the plan because you will sink deeper in debt since the root cause of the problem is not being addressed in the first place.

Besides weighing the pros and cons mentioned above, you should also consider whether it is financially worthwhile to re-mortgage your home. If you still want to go ahead with your plan, then you should read on how to go about it in the second part of this article Wednesday.

-- BERNAMA 25 March 2008, By Rosliwaty Ramly