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Welcome, my name is Andrew Baron and this is Well... It Depends! The podcast where I present the pros and cons of different financial decisions so that you, the audience, feel better informed when you're confronted with these decisions in your own life. In this episode, I ask the question, should I refinance? But before we began a short disclaimer. This is being recorded on February 14th, 2023.

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The contents of this podcast are strictly for informational purposes only, and it's not to be considered investment, tax or legal advice. It is important to discuss your situation with a professional as the strategies discussed may not be suitable for you specifically. Getting into it, should I refinance? Well... It Depends! Refinancing is the process of paying off a current loan with a new loan.

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This is often done in an effort to secure more favorable terms for lower monthly payments, better interest rates, or to change the type of loan. Let's look at some of the pros of refinancing. One of the main attractions is lower monthly payments. This often happens as you take your current balance and distributed over new term of months. Especially if you've been paying on for your loan for a number of years,

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this should be less than the amount you originally took out. You can stand to have additional benefit if you get a better interest rate than you originally had. Another reason to refinance is to change the type of loan that you have. If, for example, you have a variable loan, you might switch to a fixed rate loan through a refinance.

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Additionally, you might stand to save money by changing the term that your loan is over. For example, if you currently have a six year loan and you refinance to a three year loan, you stand to save substantial

money as the interest paid is over less time. Although refinancing has a number of benefits, it's good to consider some of the drawbacks as well.

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These include closing costs. When you refinance, you may be subject to additional costs, such as loan origination fees, read title fees and similar. Additionally, you need to consider what the effects of being in debt for a long term are, if you constantly are renewing loans. This is due to a factor called amortization. When you set up a loan, it is designed that every month you pay some amount of interest and some amount of principal.

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Over time, the allocation of this changes where at the beginning a majority of your payments are interest. Towards the end, a majority of your payment is principal. So, even if you are able to secure a loan with a better interest rate, depending on where you are and the amortization schedule, you may end up paying more interest over the lifetime of the loan anyway.

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To recap, in the end you need to evaluate what you stand to gain through a refinance versus what the costs are. Remember, a new loan may afford you a lower monthly payment, a better interest rate, or the ability to switch loan types. You need to weigh that against closing costs where you are on the amortization schedule and the long term impact of continued debt.

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So to answer the question, should I refinance? Well... It Depends!

Speaker 1: Andrew Baron, CFP®, EA