

When Does a Refinance Actually Make Sense?

A simple framework to decide if refinancing saves you money — or just resets your loan clock for nothing.

The break-even formula

Closing costs ÷ monthly savings = months to break even.

If you'll stay in the home longer than the break-even, refinance. If not, don't.

Three rate-drop thresholds

- Drop of 0.50%+ → run the numbers, often worth it on larger loans
- Drop of 0.75%+ → almost always worth it for most homeowners
- Drop of 1.00%+ → no-brainer in nearly every case

When a longer term still wins

Going from year 7 of a 30 to a fresh 30 looks bad — but if your monthly drops \$400 and you invest the difference, you may come out ahead. Run both scenarios.

Cash-out refinance vs HELOC

Cash-out = locked rate, one fixed payment. HELOC = variable rate, draw as needed.

If rates are dropping, HELOC. If rates are rising, lock with cash-out.

Avoid these refinance traps

- Don't refinance to consolidate credit card debt without a plan to stop using the cards
- Don't roll closing costs in if you're moving in <3 years
- Don't extend your loan term in the last 5 years of payoff