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Refinancing Do's and Don'ts

Refinancing is a process in which you pay off one or more debts by borrowing new money from an existing creditor or a new creditor. It is sometimes suggested as a good way for people with financial problems to address their difficulties.

Be very careful when refinancing debts. Refinancing an unaffordable amount of debt is one of the most tempting, yet risky steps you can take when you have financial problems. Many refinancing loans will hurt you more than they help.

15 Simple Refinancing Rules

1. **When in Doubt, Do Not Refinance or Consolidate Debts.** Refinancing deals almost always come with significant costs. These costs will usually just make matters worse in the long term.
2. **Be wary of anyone who contacts you about refinancing or loan consolidation,** particularly if the solicitation does not come from an established financial institution in your community. Be skeptical of any solicitation from a finance company, even if the company has helped you out before. Well-known finance companies have engaged in serious frauds.
3. **Do Not Let Debt Collectors Pressure You Into Refinancing.** Debt collectors may try to scare you into refinancing because they have no other way to get their money.
4. **Never (or Almost Never) Refinance Unsecured Debt Into Secured Debt.** For example, do not take out a mortgage on your home to pay off credit card or medical bills. Unsecured creditors rarely can do anything to seriously hurt you if you fail to pay. By trading in unsecured debt for a mortgage loan, you face loss of your home if you continue to have financial problems. Do not refinance unsecured debt into secured debt even if this allows you to lower the interest rate you are paying.
5. **Do not refinance repeatedly with the same lender.** Encouragement's to refinance regularly can only mean that the lender is looking to make a large profit at your expense by taking advantage of hidden costs of frequent refinancing.
6. **If You Have an Existing Debt With a Finance Company or High-Rate Second Mortgage Company, Do Not Refinance that Debt With the Same Company.** Ask the company to agree to lower payments on the existing loan, but do not allow the creditor to refinance that loan, which may involve prepayment penalties, new closing costs, and perhaps even a higher interest rate. Never allow the company to add new security – such as your home.

7. **Do Not Refinance Low Interest Debts With higher Interest Loans.** You should always evaluate the interest rate on the new debt and look for a lower rate than on the old debts. Furthermore, the “APR” (Annual Percentage Rate of the new loan must be lower than the *stated interest rate* of the old loan, or you will be losing money. You have already paid for certain upfront fees in the old loan, and you must make sure that a new lower rate is actually lower after both the old and new fees are accounted for.
8. **Do Not Include Your Long-Term First Mortgage in a Refinancing Package.** Do not let second mortgage lenders pay off your first mortgage and give you a new mortgage equal to the first mortgage plus the new loan. The only exception is if the new mortgage is for the equivalent length of time and the interest rate is significantly lower than the old first mortgage to offset prepayment penalties and fees and charges.
9. **Do Not Refinance Loans When You Have Valid Legal Reasons Not to Pay That Debt.** If you have a legal defense to repayment of a debt, you can raise that defense in court. If you refinance with a new lender, the defense will not be available against the new creditor. You should get legal help to see if you have a valid defense *before* entering the refinancing deal.
10. **Watch Out for Scam Refinancing Companies.** Refinancing involves great potential for hidden costs, fees, and other unfair loan terms. Even some reputable lenders make unfair refinancing deals. When in doubt, get help in reviewing the loan *before* you sign anything. You can walk away from a bad deal even at the last minute. A lender that is unwilling to let you get outside help should not be trusted. Another way to avoid scams is never to let a contractor or salesperson arrange financing for you and be wary of mortgage brokers. Unfortunately many brokers find refinancing deals which involve big commissions for them rather than good loans in your best interest.
11. **Definitely avoid anyone who solicits loans via a “door to door” visit of your home.** It is very expensive to market anything door to door, and odds are someone coming to the house to help bail you out of trouble is really coming to get you in deeper.
12. **You Can Cancel Any Refinancing Deal That Involves a Mortgage on Your Home.** In most refinancing in which you give the lender a mortgage, federal law gives you the right to cancel for any reason for three days from the date you sign papers. Make sure you cancel in writing before the deadline. You can, but need not, use the cancellation form provided by the lender.
13. **When in doubt, check out the lender.** If you have any reason to suspect someone you are considering doing business with, check with your state’s attorney general, banking commission or consumer complaint hotline. You definitely want to know if there are complaints on file from other consumers.
14. **Be careful of advertised schemes to save homes from foreclosure or personal solicitations to help you avoid foreclosure.** “For profit” foreclosure assistance has a very poor track record. Many financially strapped consumers pay money for short-term help or no help at all. Nonprofit counseling or bankruptcy assistance is usually a better alternative.
15. **If it seems too good to be true, it is not true.**