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When should you refinance your mortgage?

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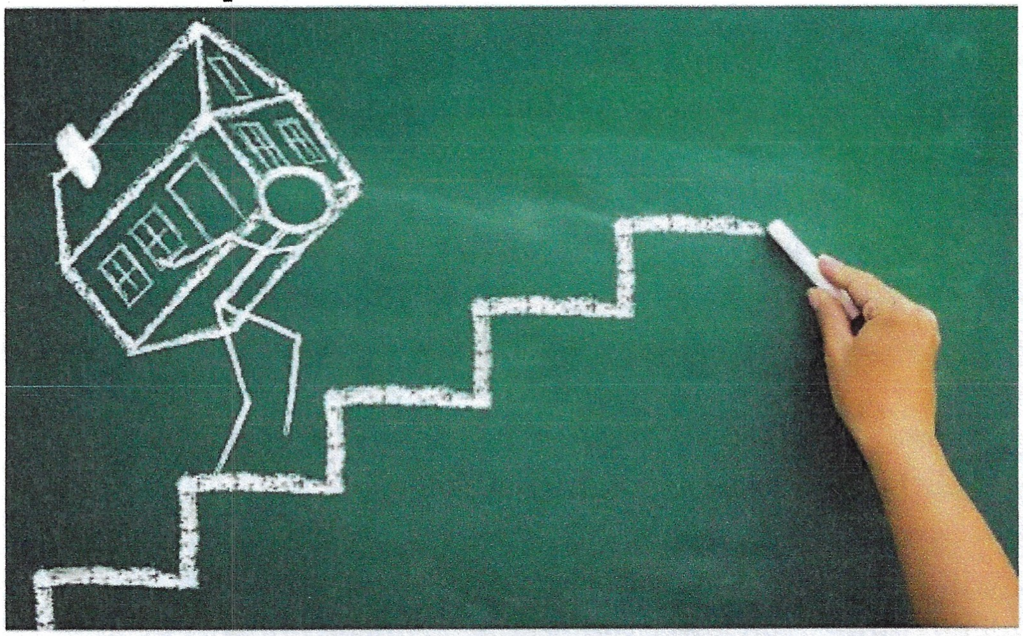
With mortgage rates still higher than in recent years, the question of whether refinancing is worth it comes down to targeted savings rather than major rate drops. If you're one of the millions of Americans who bought a home when rates were highest, you could be losing money every month on a mortgage that's more expensive than it needs to be.



Here's how to know whether refinancing puts money back in your pocket and when staying put is the smarter call.

For most borrowers, refinancing makes sense when you can lower your interest rate and your monthly payment.

"The market for refinances is relatively small right now, focused mostly on people who bought between 2022 and 2025 and have fixed rates ranging from the high 6's to low 8's," says Ted Rossman, former principal analyst at Bankrate.

Those borrowers aren't just sitting on above-market rates — they're paying for it. Bankrate's Hidden Homeownership Tax research found the average homeowner in that cohort is overpaying by $3,343 a year compared to the best rate they could have obtained.

To get the best rate, you'll need to shop — and come prepared.

"This means shopping around with at least three lenders and exploring various options," says Stephen Kates, former Bankrate financial analyst. "Go into the process with as strong a credit profile as possible. The stronger your borrowing profile, the better your terms are likely to be. Make sure to compare quotes using the annual percentage rate (APR), since this metric includes fees and points."

Compare rates

The average homeowner leaves thousands on the table by not comparing rates. Compare refinance offers and see what you could actually save before you commit.

Aside from interest rate drops, there are other factors to weigh when considering a refinance:

- Whether to refinance closing costs.
- Your projected monthly savings.
- How long you plan to stay in your home.

Here are the scenarios where refinancing is most likely to pay off:

1. You want to lower the interest rate. If mortgage rates have fallen since you took out your loan, a rate-and-term refinance lets you capture the difference. If you can lower your rate by at least 0.75 to 1.0 percentage points, the monthly savings will generally offset your closing costs within two to three years. "The rate needs to be low enough that the savings will make up for the upfront refinance costs within about 24 months," Kates says.

Your credit score matters here too. Borrowers with a score of 780 or higher typically qualify for the lowest available rates. If your score has improved since you closed, run the numbers — you may qualify for a better pricing tier than you did at purchase.

2. You're able to shorten the loan term. Refinancing from a 30-year to a 15-year mortgage typically means a higher monthly payment but a lower rate and significantly less interest over the life of the loan. If your income and budget can absorb the higher payment, this is one of the most effective ways to build equity faster and cut total interest costs. If the payment increase would stretch your budget, a 20- or 25year term can split the difference.

3. You want to change the rate structure. Some borrowers refinance from an adjustable-rate mortgage (ARM) to a fixed-rate loan to lock in a predictable payment — one that won't move with the market, regardless of what rates do. If your ARM is approaching its adjustment period and current fixed rates are close to your current rate, locking in now eliminates the risk of a sharp payment increase.

The reverse — swapping a fixed rate for an ARM — can lower your initial payment, but only makes sense if you're confident you'll sell or refinance before the fixed period ends. If rates climb after your ARM adjusts, your payment could increase substantially.

4. You plan to pay for large expenses. You can use a cash-out refinance to tap your home's equity. You can use these funds for any purpose, such as:

- Reducing or eliminating high-interest debt.
- Renovating your home.
- Paying college tuition.
- Investing in property.

Before deciding to tap your home's equity, however, it's important to evaluate how you plan to use the funds. An investment that builds long-term stability, eliminates toxic debt or increases your overall net worth can be a good use of your equity funds, while paying for depreciating assets or temporary wants will only drain your equity and put your home at risk.

To spot the difference, ask yourself a simple question: Will this expense outlive the loan or will I still be paying for it long after the novelty wears off? If it doesn't improve your financial baseline or offer a lasting return, leave your hard-earned equity right where it belongs.

5. You wish to eliminate your private mortgage insurance (PMI). Private mortgage insurance typically cancels automatically once your loan balance reaches 78% of your home's original value. But if your home has appreciated significantly, you may be able to refinance and eliminate it sooner. On a conventional loan, you'll need at least 20% equity based on the new appraised value to drop PMI through a refinance.

If you have an FHA loan, refinancing into a conventional loan is currently the only way to remove mortgage insurance entirely once you've crossed the 20% threshold.

6. You need to change the home's ownership. If you need to change the people who are responsible for the mortgage — for example, if you're divorcing and one of you intends to keep the home — refinancing may be your best option. Keep in mind that whoever remains in the home will need to qualify for the mortgage with their finances alone.

When to avoid refinancing

Refinancing may not always be the right move. You may want to hold off if:

- You'd pay more in interest. If current rates are higher than your existing rate, or your credit profile won't qualify you for a better loan, refinancing is unlikely to be a good option. Swapping to a higher rate increases both your monthly payment and total interest.
- You plan to sell soon. Closing costs typically run 2% to 5% of the loan amount. On a $300,000 balance, that's $6,000 to $15,000 out of pocket. If you won't be in the home long enough to recoup those costs through monthly savings, refinancing costs you money.
- You'd use a cash-out refinance for nonessential spending. Pulling equity to pay for a vacation, car or other depreciating purchase converts a secured debt — backed by your home — into a lifestyle expense. If your income changes or circumstances shift, that decision has lasting consequences.
- You're far into your loan term. If you're past the midpoint, refinancing resets the amortization clock. If you're in year 20 of a 30-year mortgage, a new 30-year loan means paying interest for 50 years total. A shorter-term refinance may still make sense, but run the math first.
- You're applying for other credit soon. A refinance can temporarily lower your credit score, which could impact upcoming loan applications.

Refinancing is worth it when the math works — and the math works when your monthly savings outlast your closing costs before you sell or pay off the home. That means lower payments, less total interest or a concrete financial goal met.

Timing matters too. Refinancing when rates are falling can lock in savings for the life of the loan. Refinancing just before rates drop again means paying closing costs twice.

Frequently asked questions How does refinancing a mortgage work?

Refinancing replaces your current mortgage with a new one. It's often done to lower your interest rate, change the loan term or access home equity. The process is similar to getting your original mortgage. You apply with a lender, provide financial documents, undergo a credit check and home appraisal and pay closing costs. Once approved, the new loan pays off your existing mortgage, and you begin making payments on the refinanced loan.

Will I lose money if I don't refinance?

Not refinancing doesn't automatically cost you money. If your rate is competitive and today's rates are at or above it, staying put is the right call. But if you took out your mortgage between 2022 and 2025 and haven't compared rates recently, the picture may be different. Bankrate's Hidden Homeownership Tax research found that 87% of all 2025 borrowers secured a rate above the most competitive available, at an average annual cost of $3,343. In that case, not refinancing is a decision that compounds every month you wait.

How soon can you refinance a mortgage?

In many cases, you can refinance as soon as six months after closing on the original loan, called a "seasoning period," though timing depends on your lender and loan type. Some government-backed refinance programs, such as FHA Streamline and VA IRRRL loans, also include timing rules. Even if your lender allows it, it's usually smart to wait until refinancing offers a clear financial benefit, such as lower interest rates.

Is now a good time to refinance?

Whether now is a good time to refinance depends on your current interest rate and market rates. With the national average refinance rate for a 30-year fixed loan near 6.70% in July 2026, the market creates two different scenarios for homeowners:

If your mortgage rate is above 7%. This is a great time to explore refinancing. You can possibly lower your payment enough to ease your budget and save thousands over the life of your loan.

If your mortgage rate is below 6%. Refinancing right now doesn't make financial sense. Swapping your existing mortgage for today's higher market average will increase your total interest amount and push up your monthly payments.