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7 biggest myths about mortgage refinancing

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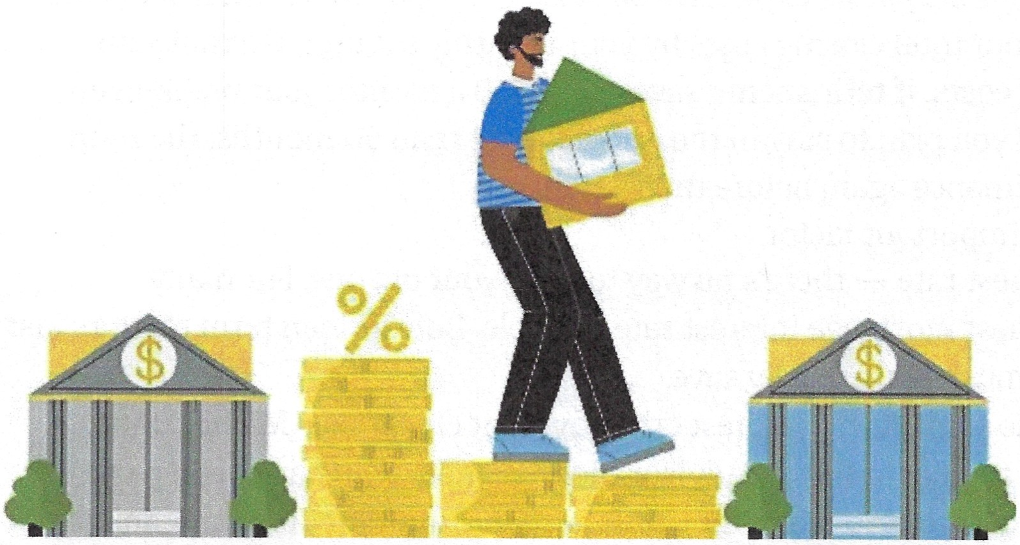
Despite the rise in interest rates in the last few years, refinancing may still make sense for some homeowners. If you're a first-time refinancer, though, you might have a lot of questions about what the process is like — and might also have picked up some misinformation.



Let's dispel some common myths about mortgage refinancing.

Myth 1: Shopping around for a refinance doesn't matter much

Not true, and it's the myth that costs borrowers the most. In 2025, 87% of all mortgage borrowers paid above the most competitive rate available to them and refinance borrowers weren't far behind at 78.7%, according to Bankrate's Hidden Homeownership Tax research that analyzed 3.2 million mortgage originations. Typical borrowers who overpaid lost $3,343 a year, or $278 a month, by paying a rate that wasn't the best available to them.

The mechanism is simple: Lenders don't post their best offer by default. A single quote reflects what one lender wants to charge you, not the best rate the market will give you. If you want the most competitive rate, you have to create the competition yourself by getting more than one quote.

Get quotes from at least three lenders before you sign. One quote tells you what one lender is willing to offer. Three or more quotes, pulled on the same day, tell you where the market actually sits and give you leverage to negotiate or walk away. Compare the annual percentage rates, not just the interest rates, since APRs include lender fees and show the real cost of each offer side by side.

What overpaying actually costs: Let's say you want to refinance your mortgage balance of $400,000 for 30 years. The first quote you receive is for 6.8%, which seems competitive. You're tempted to accept it, just to keep the process moving. But what if you kept shopping? By comparing a few more lenders, you secure a refinance offer at 6.5%.

Three-tenths of a percentage may not sound like much, but it can add up to real money. In this scenario, the better refinance offer could save you $80 each month and more than $28,000 over the life of the loan.

Myth 2: Refinancing is cost-free

Afraid not. Homeowners usually hear a lot about how much they can save by refinancing their mortgage, but they rarely hear about the upfront cost of doing so. While it's true that you don't need to make a down payment, a refinance is still a mortgage and — like your first home loan — it includes closing costs.

Refinance closing costs can amount to as much as 2% to 5% of the new loan principal. For example, if your fees are 3% on a $250,000 mortgage, your upfront payment is $7,500. Many lenders will allow you to roll those costs into your new loan, as part of a no-closingcost refinance, which will increase the principal you must repay. This option is also more expensive because you'll pay more interest overall.

Find your break-even point: Divide your total closing costs by your monthly savings. On that same $250,000 loan with $7,500 in closing costs, if refinancing saves you $150 a month, your break-even point is 50 months ($7,500 ÷ $150). If you plan to stay in the home longer than 50 months, the refinance pays off. If you plan to sell or refinance again before then, it doesn't.

Myth 3: The interest rate is the most important factor

Every refinance gives you a new interest rate — there's no way to keep your old one. For many homeowners, the goal is simply the best mortgage interest rate possible. But the loan term matters just as much because it determines how much you actually save.

When you refinance to a loan with the same term, you reset the payment clock, says Michele Sine, portfolio manager and senior wealth adviser at ImpactAdvisor. Homeowners who have been paying their 30-year mortgage for 10 years reset to zero when they refinance into another 30-year loan. That's 120 extra monthly payments and amortization schedules front-load interest, so those early payments cost more than they would have on the original loan.

"It's an uneven playing field when it comes to payments. In short, the bank always wins because they get their money first," says Sine.

If your goal is to cut total interest over the life of the loan, shorten your term when you refinance, such as going from a 30-year fixed-rate mortgage to a 15year fixed-rate mortgage, or keep your original term and add extra principal payments each month. If your goal is a lower monthly payment right now, a lower rate on the same term will do that, but it won't cut your total interest by nearly as much.

Myth 4: A refinance will affect selling the house

Refinancing your mortgage doesn't put an additional lien on your home — a legal claim that gives a lender the right to your property if you default. A refinance simply swaps the primary lien on the home for a new one. It doesn't affect a future home sale or complicate your title in any way.

Refinancing is based strictly on your ability to pay back the loan, as evidenced by your credit and employment history. It doesn't impose any restrictions on future sales beyond what your original mortgage already did.

Does refinancing tap your equity? Only if you choose a cash-out refinance, which replaces your mortgage with a larger one and pays you the difference in cash. Treat that decision with real caution: a cash-out refinance means a bigger loan balance, a new monthly payment and foreclosure risk if you can't keep up — it's a decision for a specific financial job, not a way to fund discretionary spending. Using a cashout refi to pay for a vacation or to consolidate credit card debt you're likely to accumulate again is a bad use of the equity you've built. If you're not funding a major, value-adding expense like a renovation, a HELOC or a home-equity loan is usually the better fit, since neither requires you to refinance the rate on your existing mortgage.

Myth 5: You won't need a credit check

It might come as a surprise that lenders require a credit check for refinancing a home loan. If you've been repaying the loan on time, why should lenders want to recheck your credit? Because to them, it's a new loan and they have to vet your current finances, not just your payment history on the old loan. "Generally, homeowners with credit scores over 760 will qualify for the best refinancing rates," says Leslie Tayne, founder and head attorney at New York's Tayne Law Group. "Lenders will likely be looking for your debt-to-income ratio (DTI) to be less than 36% to ensure that you're not carrying too much debt and can adequately pay back the loan. Some homeowners may be surprised to find out they don't qualify." Most conventional refinances cap DTI at 43%, but you'll need to keep your DTI below 36% for a cash-out refinance or to qualify for a lender's lowest rate.

Check your credit score and calculate your DTI before you apply. If both clear your lender's bar, you're in a position to get the best rate available. If they don't, pay down debt or raise your score before you apply — a rejected application still leaves a hard inquiry on your credit report, with nothing to show for it.

Myth 6: You can only refinance your mortgage once

There's no limit to how often you can refinance your mortgage. But closing costs apply every time — 2% to 5% of the new loan amount, the same as your first refinance — so confirm each refinance actually pays off. Run the break-even math above before you refinance again, especially if you refinanced your home loan in the past few years.

You do need to pause between applications. "In reality, you can refinance your mortgage as many times as you want, but many lenders look for a 'seasoning period,' or an amount of time in between refinances before they're comfortable approving another," says Tayne. "Additionally, if you have a prepayment penalty on your loan, you could be charged if you attempt to refinance again."

Keep in mind: Few mortgages come with prepayment penalties these days, but it pays to ask before you settle on a refinance lender.

Myth 7: You can't apply for a refinance if you were turned down in the past

You can reapply after a denial — the fix depends on why you were denied:

- If your credit score fell short, pay down revolving balances and dispute any reporting errors before reapplying.
- If your DTI ratio was too high, pay down existing debt or wait for income to increase before reapplying.
- If your home's appraised value came in low, request a second appraisal or wait for local values to rise before reapplying.

You can also apply with a different lender, since credit score and DTI cutoffs vary by lender. Ask your original lender for the specific denial reason in writing before you reapply anywhere — guessing wastes another hard inquiry.

Frequently asked questions

- Can you refinance and keep the same interest rate? No. When you refinance, you get a whole new loan with a new interest rate. Compare today's refinance rates before you commit to a lender so you get the best loan available to you.
- Does refinancing hurt your credit score? Refinancing can cause a small, temporary drop in your score. But assuming that you've been paying your previous mortgage on time, your score is probably high enough to absorb the small hit, and it's likely to recover within a few months.
- Is refinancing worth it for a small rate drop? In most cases, no. A rate drop of half a point or less usually has a break-even point too far in the future — it would take years to recoup your closing costs through lower payments. One exception may be FHA loans. Because these mortgages carry steep mortgage insurance premiums for the life of the loan, it could make sense to refinance out of an FHA loan into a conventional loan, provided your credit score now is above 700 and you're borrowing less than 80% of the home's value.
- Do you need 20% home equity to refinance? Generally, you need at least 20% equity to refinance, but this number varies by lender and the type of refinance you choose. It's possible to refinance with less equity, but you'll likely face higher interest rates and fees.
- Does refinancing restart your loan term? Typically, refinancing your mortgage means starting your loan term over, which means a longer repayment period (unless you opt for a shorter term, such as a 15-year mortgage). These days, however, you can find lenders who will let you choose custom loan terms. This means you can choose loan terms that fit your original mortgage length, as long as you can afford the monthly payment.
- Do all lenders offer the same rate? No, not all lenders offer the same rate, which is why it's so important to shop around. Even a percentage point difference can add up to big savings over the years. And be sure to compare not just interest rates, but annual percentage rates (APRs) — which reflect the lender's fees and the real cost of the loan.