F|E|E Bank

REFINANCE

Refinancing may refer to the replacement of an existing debt obligation with another debt obligation under different terms. The terms and conditions of refinancing may vary widely by country, province, or state, based on several economic factors such as, inherent risk, projected risk, political stability of a nation, currency stability, banking regulations, borrower's credit worthiness, and credit rating of a nation. In many industrialized nations, a common form of refinancing is for a place of primary residency mortgage. If the replacement of debt occurs under financial distress, refinancing might be referred to as debt restructuring.

A loan (debt) might be refinanced for various reasons:

1. To take advantage of a better interest rate (a reduced monthly payment or a reduced term)
2. To consolidate other debt(s) into one loan (a potentially longer/shorter term contingent on interest rate differential and fees)
3. To reduce the monthly repayment amount (often for a longer term, contingent on interest rate differential and fees)
4. To reduce or alter risk (e.g. switching from a variable-rate to a fixed-rate loan)
5. To free up cash (often for a longer term, contingent on interest rate differential and fees)

Refinancing for reasons 2, 3, and 5 are usually undertaken by borrowers who are in financial difficulty in order to reduce their monthly repayment obligations, with the penalty that they will take longer to pay off their debt. In the context of personal (as opposed to corporate) finance, refinancing multiple debts makes management of the debt easier. If high-interest debt, such as credit card debt, is consolidated into the home mortgage, the borrower is able to pay off the remaining debt at mortgage rates over a longer period.

For home mortgages in the United States, there may be tax advantages available with refinancing, particularly if one does not pay Alternative Minimum Tax.

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