

Get Your Hands on Some Cash

Another way to make a refinance work for you is to refinance for more than the balance remaining on your old mortgage -- in effect, tapping your home equity, or "cashing out," in mortgage speak. Thanks to favorable rates, you may be able to do so without boosting your monthly outlay. For example, at 8.5%, the payment on a \$200,000, 30-year fixed rate mortgage is \$1,538. But at 7.5%, that same payment lets you borrow nearly \$20,000 more.

The best use for the extra cash is to pay off any higher rate loans you may have. Let's say that you are carrying a \$15,000 car loan at 10% and making minimum payments on a \$10,000 credit card balance at 17%. Your monthly payments on those debts would total \$680. Then assume you refinanced your mortgage, taking out an additional \$25,000 to pay off your car and credit card loans. Result: At 7.5%, your additional monthly mortgage payment would total only \$175, so you would come out \$505 ahead ($\$680 - \$175 = \505).

Of course, all the extra cash needn't go for paying off debts. When the Menards swapped their ARM for a fixed rate last December, they also increased their mortgage load by \$34,000, from \$106,000 to \$140,000. They used \$3,000 of the proceeds to pay their refinancing costs and another \$17,000 to pay off a 10% home equity loan, which had been costing them \$250 a month. Then they spent the remaining \$14,000 to build a garage for Roger's antique car collection -- and they did all this for just another \$19 a month.