We all have learned the value of refinancing. Last year when I refinanced my home mortgage, the interest rate dropped from seven percent to a little over three percent. That made a big difference in my mortgage payment.

You can refinance other types of loans as well, but before you refinance, look at your credit score. It will determine whether or not you can refinance, but it can also be affected by refinancing.

Think about your goals. What are you trying to accomplish? You may want to simplify your life by combining several loans in order to make only one payment; that can easily be accomplished. The credit card company will gladly do a balance transfer, usually for a small fee.

If you are thinking about refinancing, be sure to consider any unforeseen pitfalls. You can take advantage of a zero percent transfer card, but remember that promotional fees expire after six months or a year. Find out what the long-term interest rate will be. You don’t want to end up with a higher interest rate after the introductory period expires. However, if you can pay it off in the introductory period, it makes perfect sense to transfer a balance, even if the long-term interest rate is a little higher.

Be aware of how much of your available credit you are using because it is a very important part of the credit score. Let’s say you have two cards, each with an available credit limit of $5,000 and a balance of $2,000 on each card. You are using 40 percent of the credit on each of these cards. If you transfer the balance on one card to the other and cancel the first card, you are effectively using 80 percent of your credit line. Experts recommend that you use no more than 30 percent of your available credit. If you want to transfer the balance from one card to the other credit card, it might be a good idea to leave the first card open and maintain the credit line.

Another complication in transferring a balance is that there may be different interest rates on different parts of your account. The original balance may be at one rate and the
transfer at a different rate. The challenge comes when you pay only a part of the account and carry a balance. The credit card company can apply the payment to whichever part of the account it chooses. It could apply the payment to the lower-rate part of the account, leaving the higher-rate part still accruing interest.

One of the most refinanced loans is the student loan. Federal student loans can be bundled into one loan with a single monthly payment. However, if you have a single federal loan, you have to refinance it through a private lender. Some federal loans have a forgiveness clause if you work in a low-income community or for an underserved audience. Make sure you know if your loan has these clauses.

If your credit score is low, you might want to put off refinancing your student loan until you can repair your credit score. Though this article is about how to use your available credit, the number-one consideration for improving your credit score is how you pay your bills. Working at paying off the balance and meeting your financial obligations will go a long way toward increasing your credit score.

Refinancing can work to reduce the payoff amount on several types of loans. Just make sure you don’t have any unforeseen consequences with that refinance.

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