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Serving the Greater Houston Area

The Refinance Break-Even: When the Monthly Savings Pay Back the Cost

By Owen Ye, Licensed Loan Officer (Loan Factory, NMLS #2541101)

When rates drop, refinancing always looks like a win — but it has costs, and resetting the loan clock restarts the interest math. This guide teaches one decision tool: the break-even line. Add up the full cost of the refinance, divide by what you truly save each month, and the result is the number of months you must stay for the refinance to actually save you money.

1. Count the Full Cost First

Not Just the Rate Gap

1. The visible costs

Appraisal, title, document and lender fees — refinancing closing costs commonly run about 1%–2% of the loan amount. A so-called no-cost refinance swaps those fees for a higher rate; it is not free, just priced differently.

2. Hidden item one: the reset clock

Five years into a 30-year loan, a fresh 30-year refinance lowers the payment — but restarts the interest clock. Compare the remaining total interest on both paths, not just the two payments.

3. Hidden item two: PMI and escrow

If the new loan's LTV is above 80%, PMI may come back with it. At closing, the escrow account is rebuilt and the old balance refunded — that cash flow belongs in your timeline, but the refund is not savings; do not count it as money saved.

2. The Break-Even Formula

One Division

1. The formula

Break-even months = total refinance cost ÷ true monthly savings. Compare the savings on one consistent basis: principal + interest on both loans (taxes and insurance inside PITI are the same on both paths, so leave them out of both sides).

2. An example

Costs of \$4,500 and savings of \$180 a month give a 25-month break-even: staying at least 3 more years, it pays; possibly selling next year, it does not. Swap in your own numbers and the answer is immediate — no guessing.

3. Then run the long-term math too

The break-even line is the short-horizon test. If you plan to hold to the original term, also compare both paths' remaining total cost side by side — including the extra interest from the reset clock. Move only when both the short and the long math pass.

3. When It Is Not Worth Doing

Three Common Cases

1. The stay is too short

If you expect to sell or move again within 1–2 years, the break-even will very likely outrun the stay — the costs barely get covered before the home is sold.

2. The drop is too small

When the rate falls only about 0.25%, the monthly savings are usually so small that the break-even stretches out for years. Unless costs are minimal, or the refinance also removes PMI or brings another gain, it is rarely worth it.

3. Small balance or short remainder

With a small remaining balance, or only a few years left on the current loan, the interest base you can save on is limited — once the costs are spread in, the break-even can exceed the time left.

4. When It Is Especially Worth It

More Than the Rate

1. It also removes PMI

If the home's value has risen and the LTV is now under 80%, a refinance that also drops PMI adds that whole charge to the monthly savings — the break-even shortens sharply. This is the most common genuinely-good deal.

2. It changes the structure

Moving from an ARM to a fixed rate, or from 30 years to 15 (payment up, total interest far down): these refinances target risk and total cost, so the math changes — compare total interest and risk exposure, not the payment gap.

3. Cash-out gets its own ledger

Cash-out refinances carry higher rates and different amount rules. What the cash is for — clearing high-interest debt, a renovation — deserves its own calculation, kept separate from the rate-saving math, or neither side adds up cleanly.

4. Run the same-basis math before you apply

Put the old and new payments side by side, on the same basis (principal + interest), in this site's [mortgage calculator](#), then run this guide's break-even formula; check the current rate level in the [rate report](#) and the refinance product rules on the [loan programs page](#). Send me your current loan statement in a [free consultation](#) and I will run your break-even for you.

Questions about a loan? Ask me — free consultation: (347) 774-5396 | owenrealestatetx.com

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