DIBS # 15-16
May 2016

Are There Opportunities to Decrease My Current Debt Payments?

Dianne Shoemaker, Dairy Farm Management Field Specialist, The Ohio State University Extension

Maybe. Interest rates dropped dramatically between 2007 and 2009 and remain low, so it may be possible that you have longer-term loans with higher fixed interest rates than are currently available.

If so, it may be possible to shave a little, or a lot, off of these fixed-rate loans by refinancing the loan at a lower rate. There is typically an up-front cost or conversion fee to refinance a loan, so the potential savings in interest has to be greater than the cost to refinance. Loans with flexible or variable interest rates have payments that fluctuate with interest rates and will already reflect lower interest rates. Just be aware that the payments will also increase as interest rates increase.

Example:

A mortgage note with a current balance of $317,800 and interest fixed at 5.5%. There will be 120 monthly payments at $3,461 each.

A new rate of 4.6% is assumed with a one-time conversion fee of $1,500. New monthly payments for the remaining 10 years would be $3,319.

The difference in monthly payments would be $142 per month. In this case, it will take more than 10 months before the farm actually realizes savings from the change (the length of time it will take to recoup the fee). However, the farm will save an additional $15,566 in interest over the remaining life of the loan.

Potential savings are greater for loans with later maturity dates. More of each payment is going towards interest than principal. In the last year or two of a loan, most of the payment is going towards the principal rather than interest, so savings may not be worth the fees charged to refinance the note. Visit with your lender to find out what the opportunities might be and push a pencil before making a decision.

Bottom Line #1: If you have not recently reviewed and refinanced your existing debt, there may be an opportunity to lock in lower interest rates, decreasing your total debt payments once conversion fees have been covered. Because of the fees involved, most savings will be realized later this year and in future years.

Bottom Line #2: Interest rates are still very low. If you have variable interest rate loans, consider converting them to fixed-rate loans to lower the risk of interest rates increasing rapidly in the future.

Published by OSUE Dairy Working Group, a collaboration of OSU Extension Educators and Specialists. Reviewed in 2016 by: Maurice Eastridge, Professor and Extension Dairy Specialist, Department of Animal Sciences

Factsheet originally published in April 2009, DIBS # 15-09

Contact author at: Dianne Shoemaker, Ohio State University Extension, 330-257-3377, shoemaker.3@osu.edu