to refi or not refi

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What is a refinance?

A home refinance (or "refi" for short) is best defined as the act of trading your current mortgage for a new one. Your lender, or bank, pays off your previous home loan often in exchange for better terms.

Why should you refinance?

There are several reasons to refinance your home.

- Lower your mortgage payment
- Shorten the term of length of your loan
- Consolidate debt
- Remove PMI
- Lower your interest rate
- Change programs
- Fix repairs (home improvement)
- Remove or add co-signers

The four types of refinance loans

When considering a home refinance, it's important to know the four types of loan options that are available to you.

Rate-and-term

Cash-out

Renovation

Streamline

Qualifications depend on:

- The loan you currently have: FHA, Conventional, VA or USDA
- Your homes value vs mortgage loan balance
- Mortgage Insurance
- Credit
- DTI

Now let's get into the break down of each type of loan...

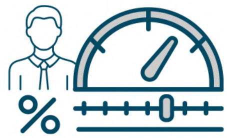
Rate-and-term Refinance

A rate and term refinance loan changes the interest rate and/or term of your existing mortgage with no immediate need for cash in hand payment (also known as equity draw). This is based on the equity that's already invested into your home.

When to consider a Rate-and-term refi

Switching programs

Removing a co-signer



Shortening the term of your home mortgage

Removing PMI

Lowering interest rates

How to qualify for a conforming refinance on your primary residence:

- Minimum 620 credit score
- Minimum 6 months mortgage payments after your original mortgage closed
- DTI (Debt to income ratio) not to exceed 45%*
- Maximum 97% LTV (Loan to value)**
- Proof of income/assets
- Homeowners insurance info
- Title insurance

*Can exceed 45%, up to 50%, with a 720 minimum credit score
*Can go up to 100% LTV for a VA Loan

Cash-out Refinance

A cash-out refinance loan is cash given to you at closing in addition to your new mortgage. The dollar amount you'll receive is the difference between your mortgage balance and your home's current value based on equity.

When to consider a Rate-and-term refi

Improve your cash flow by paying off debt

Fix/upgrade your home

You're ready to buy your family's dream vacation home

Create other sources of retirement

How to qualify for a conforming refinance on your primary residence:

- Minimum 620 credit score
- Minimum 12 months mortgage payments after your original mortgage closed
- DTI (debt to income ratio) not to exceed 45%*
- Maximum 80% LTV (loan to value)**
- Proof of income/assets
- Homeowner's insurance info
- Title insurance
- 6 months reserves

*Can exceed 45%, up to 50%, with a 720 minimum credit score
*Can go up to 100% LTV for a VA Loan

Renovation Refinance

A renovation refinance loan allows you to upgrade your home based on the new appraised value of your home's worth after renovation is completed. These costs are rolled over into your new mortgage payment and are not based on equity, but on equity base on the new value after the renovation.

When to consider a Rate-and-term refi

Borrow up to 110% of the new appraised value

Build the dream closet, man cave or kitchen you've always wanted

ADDING VALUE to your home

No Equity? No problem

Remodel instead of buying new

How to qualify for a conforming refinance on your primary residence:

- Minimum 620-660 credit score depending on the lender
- Minimum 6 months mortgage payments after your original mortgage closed
- DTI (debt to income ratio) not to exceed 45%*
- Maximum 110% LTV - you may borrow up to 110% of your home's new appraisal value
- If repairs are north of 35k, HUD recommends obtaining 2 contractors with a minimum of 5+ years of experience
- Proof of income/assets
- Homeowner's insurance info
- Title insurance

*Can exceed 45%, up to 50%, with a 720 minimum credit score

Streamline Refinance

A streamline refinance loan allows you to refinance your existing FHA/USDA/VA loan faster with lower rates.

When to consider a Rate-and-term refi

<700 CREDIT SCORE

If you have <700 credit score

If your neighborhood isn't appreciating at a rapid rate

Skip the appraisal paperwork with no income verification or credit check

If you've made 6-12 on time monthly payments

How to qualify for a conforming refinance on your primary residence:

- Minimum 580 credit score
- Minimum 210 days (VA IRRRL) after your original mortgage closed
- 6 payments for FHA and USDA Streamlines
- No DTI requirements
- No LTV requirements
- No income or asset documentation required
- No appraisal required
- **You cannot change or remove people on title.**
- Government Cashout
- 100% VA
- 80% FHA & USDA
- 620 Fico Score
- 50% DTI
- Full credit approval
- Credit, income and appraisal

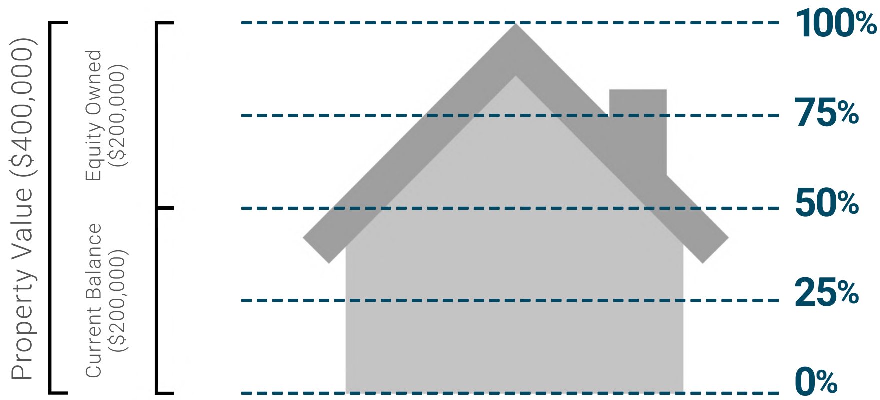
What is LTV? (Loan to Value)

While gearing up to procure your DIY REFI, you will likely hear the term LTV, which stands for "loan to value." LTV is an essential criterion that lenders utilize to determine whether you qualify for the loan you seek. LTV can also help your lender suggest terms, APR, the probability of requiring mortgage insurance, and other choices for your consideration while customizing your home refi.

As you can see, LTV is a crucial driving force behind the home loan process. But... what exactly is LTV?

Your LTV is a ratio, composed of the amount you owe on your current mortgage divided by the present value of your home.

$$\frac{\text{Current Balance: } \mathbf{\$200{,}000}}{\text{Appraised Value: } \mathbf{\$400{,}000}} = \mathbf{50\%}$$



Fun fact:
LTV only impacts rate and term, cash-out and renovation refinances. LTV does not impact a streamline refinance. There is no max LTV when it comes to a streamline.

LTV Examples

Now that you have a better understanding of what LTV is and why it's so vital to the refinance process, it's time to review some different maximum LTV's for varying types of refinances. Remember, we obtain your LTV by dividing your current outstanding mortgage by the present value of your home. This number cannot exceed the maximum LTV for your particular loan scenario. What are these max LTV's?

Rate and term refi: **97% Max LTV**

e.g. your home's value is $400k and your loan's balance is $388k so your LTV is 97%

$$\frac{\$388,000}{\$400,000} = \textbf{97\% LTV}$$

Renovation refi: **110% Max LTV**

*you may borrow up to 110% of your home's new appraisal value e.g. your home's value is $800k and your loan's balance is $776k. Your renovations will cost $104,000. Total loan amount is $880k so your LTV is 110%

$$\frac{\$880,000}{\$800,000} = \textbf{110\% LTV}$$

Cash-out refi: **80% Max LTV**

e.g. your home's value is $600k and your loan's balance + the cash you are pulling out totals $480k so your LTV is 80%

$$\frac{\$480,000}{\$600,000} = \textbf{80\% LTV}$$

Streamline refi: **95% Max LTV**

e.g. your home's value is $500k and your loan's balance is $475k so your LTV is 95%

$$\frac{\$475,000}{\$500,000} = \textbf{95\% LTV}$$

Fannie Mae Standard Eligibility Requirements

Source: https://singlefamily.fanniemae.com/media/20786/display

Standard Eligibility Requirements - Desktop Underwriter Version 11.0

Excludes: High LTV Refinance, HomeReady, Homestyle Renovation, and Manufactured Housing

Transaction Type	Number of Units	Maximum LTV, CLTV, HCLTV
Principal Residence		
Purchase Limited Cash-Out Refinance	1 Unit	FRM: 97% (1) ARM: 95%
	2 Units	FRM/ARM: 85%
	3-4 Units	FRM/ARM: 75%
Cash-Out Refinance	1 Unit	FRM/ARM: 80%
	2-4 Units	FRM/ARM: 75%
Second Homes		
Purchase Limited Cash-Out Refinance	1 Unit	FRM/ARM: 90%
Cash-Out Refinance	1 Unit	FRM/ARM: 75%
Investment Property		
Purchase	1 Unit	FRM/ARM: 85%
	2-4 Units	FRM/ARM: 75%
Limited Cash-Out Refinance	1-4 Units	FRM/ARM: 75%
Cash-Out Refinance	1 Unit	FRM/ARM: 75%
	2-4 Units	FRM/ARM: 70%

What is the value of your property?

Use as a **value checker** -this is a quick and efficient way to pull your home’s value
Link to DIYHOMELOANS

Check comparable sales in your neighborhood.

• Look for similar property types with the same bedroom count, square footage, lot size, amenities, and year built
• Look at sales completed within the past 90 days
• To ensure accuracy, be sure not to avoid lower sales unless it was a special sale (probate, foreclosure, short sale, distressed property, or bankruptcy)
• Look at the value of homes within a .5 mile to 1 mile radius

*Each home loan scenario is unique! Your loan may require an appraisal to determine your home's value depending on your equity and other factors. You may qualify for an appraisal waiver or possibly even a drive-by appraisal. Once you submit your online application, you will be able to deduce whether an appraisal will be necessary for your DIY REFI

Let's get started!

(Key questions to ask before submitting your loan application)

1. What type of loan do you currently have?

Is your loan a 30-year fixed-rate mortgage or an Adjustable Rate Mortgage? Is your loan conforming, jumbo, FHA or any other type of government loan program? From here, we can deduce which loan program might be most advantageous for you to proceed with. for example, if you currently have a VA loan, it's recommended for you to stick with the same program.

2. How long have you had the loan?

It's essential to deduce how far into the term of your loan you are so that you may analyze which loan program, interest rate, and term will best benefit you moving forward.

3. What is the current outstanding balance on your loan?

Obtain a copy of your most recent mortgage statement and look at how much you still owe. This will help us calculate your LTV.

4. What is your current interest rate?

If you're not sure what your current rate is, you can usually find this information on a copy of your most recent mortgage statement.

What documents should you have at the ready?

Often referred to as 'conditions', or 'stips' (stipulations), here is what you should have ready to go at the time of your application.

1 Employment Information

- 2 most recent pay stubs
- 2 years most recent w2 forms
- 2 years most recent tax returns*

  *3 years tax returns if using any Homebuyer Assistance Programs

2 Business Income (if self employed):

- Business License and 2 years federal tax returns if filing Schedule C
- K-1 form
- 1120 form
- Previous 2 years business tax returns

3 Rental Information (if applicable):

- 1040s Including Schedule E
- Copy of mortgage statement for all properties owned
- Copy of taxes and insurance for all properties owned

4 Credit Information & Proof of Identity:

- Most recent mortgage statement
- Most recent billing statements for car, student or personal loans
- Copy of Driver's License
- Social Security Card

5 Asset Information:

- 2 months most recent bank statements
- 2 months most recent retirement or investment accounts (if applicable)

6 Property Information:

- Most recent mortgage statement
- Homeowners insurance declarations page
- Name and contact of HOA representative (if applicable):
- Property tax bill

The five categories of closing costs

Your closing costs will range from $2,000-$5,000 depending on your home loan amount. We'll go over the 5 categories of closing costs and ways you can cover them.

1. **Title Insurance**
2. **Escrow Fees**
3. **Lender Fees**
4. **Miscellaneous/Lender Fees**
5. **Pre-paid Fees**

1. Title Insurance

Title insurance protects you and your lender if someone claims the property after closing. These fees are based on California pricing.

Lender Policy: $350-$945 (CA Only)

2. Escrow Fees

The escrow fees are paid to the title company, escrow company or attorney for finalizing your refinance transaction.

Escrow Closing: $500 (CA Only)

3. Lender Fees

Every lender varies in what they charge for fees.

Discount Points: 1 Point = 1% of the loan
Origination Fee: Up to 1.5% of the loan amount
Application Fee: $75-$500
Processing Fee: $995-$1,500
Underwriting Fee: $885-$1,200

4. Miscellaneous Fees

Not negotiable. These are third party fees that lenders do not control.

Appraisal	**Endorsement**
Credit Report	**Sub-Escrow**
Notary	**Processing (If brokering)**
Wire	**Upfront MI (FHA)**
Recording	**Funding Fee (VA)**

5. Pre-paid Fees

This is a formula breakdown of the calculated fees that are listed in your closing disclosure. These are scheduled before your first new mortgage payment.

Hazard Insurance:

(that you are currently paying)

$$\frac{\text{Loan Balance x 0.15\%}}{\text{12 Months}} \text{ x 14 Months}$$

Interest:

[(Interest Rate x Loan Amount) x 365 Days] x Days left in the month

Property Tax:

(that you are currently paying): See Impound Schedule

$$\frac{\text{Purchase price x 1.25\%}}{\text{12 Months}}$$

Tax Impound Schedule

Source:

MONTH OF FUNDING	FIRST MONTHLY PAYMENTS	IMPOUNDS REQUIRED	NUMBER OF INSTALLMENTS PAID
JANUARY	MARCH	7 MONTHS	1ST PAID, 2ND NOT PAID
FEBRUARY	APRIL*	7 MONTHS	1ST & 2ND INSTALLMENT PAID
FEBRUARY	APRIL	2 MONTHS	1ST & 2ND INSTALLMENT PAID
MARCH	MAY	3 MONTHS	1ST & 2ND INSTALLMENT PAID
APRIL	JULY	4 MONTHS	1ST & 2ND INSTALLMENT PAID
MAY	JULY	5 MONTHS	1ST & 2ND INSTALLMENT PAID
JUNE	AUGUST	6 MONTHS	1ST & 2ND INSTALLMENT PAID
JULY	SEPTEMBER	7 MONTHS	1ST & 2ND INSTALLMENT PAID
AUGUST	OCTOBER	8 MONTHS	1ST & 2ND INSTALLMENT PAID
SEPTEMBER	NOVEMBER	9 MONTHS	1ST & 2ND INSTALLMENT PAID
OCTOBER	DECEMBER	10 MONTHS	1ST & 2ND INSTALLMENT PAID
OCTOBER	DECEMBER**	4 MONTHS	1ST PAID, 2ND NOT PAID
NOVEMBER	JANUARY	5 MONTHS	1ST PAID, 2ND NOT PAID
DECEMBER	FEBRUARY	6 MONTHS	1ST PAID, 2ND NOT PAID

*Loans closing February 1st and after requre the 2nd 1/2 tax installment be paid prior to or at closing.
** Loans closing November 1st and after requires the 1st tax installment be paid prior to or at closing.

Finalizing closing costs

Now that you understand closing costs, let's go over how to cover and finalize them. Run the numbers to see which option is best for you.

Pay out of pocket:

Pay closing costs out of pocket for long-term benefits. Paying out of pocket will prevent you from bumping up your loan amount or interest rate to accommodate these costs. If you've got the cash handy, this is a fantastic option

Pay with a rate:

Pay closing costs with a higher interest rate and opt to take a rebate in exchange. This is a great short-term option however, you may feel the weight of a higher rate over time if you plan on staying in the home longer than 5-7 years

Bump up the loan amount:

Bake the fees into your loan amount to cover cash to close! This is a great long-term option and you won't lose anything upfront. You also benefit from taking the lower rate in this instance

Blend all of the above:

You can pay for closing costs with a little cash out of pocket, a higher rate, and some invested equity. If you are unsure of whether you will sell the home or keep it, this is the best option

How to shop a refinance

When you're ready to apply for a home refinance loan, you'll need to run the numbers to see which option gets you the best deal. Here are steps you can take to figure out your new loan amount

- **Check your loan balance** (look at your most recent mortgage statement for loan balance)
- **Check the current value of your home**
- **Get refi estimates for multiple lenders** (based on your current balance, property type and county location)
- **Determine closing costs** (see pages 14-17)

Refinance example

When you're ready to apply for a home refinance loan, you'll need to run the numbers to see which option gets you the best deal. Here are steps you can take to figure out your new loan amount

	Purchased Home (May 2018)	Refinanced 30 Yr Fixed (May 2020)	Refinanced 25 Yr Fixed (May 2020)
Total Balance	$500,000	$487,000	$487,000
Rate	4.25%	3.25%	3.25%
Monthly Principal & Interest	$2,459.70	$2,119	$2,373
Monthly Principal & Interest Savings	-	-$340	-$86
Predicted Total Interest (Full Loan Term)	$385,492	$276,004	$224,969
Total Interest Saved	-	$109,488	$160,523
Interest Paid (To Date)	$43,518	$43,518	$43,518
Total Savings	-	$65,970	$117,005

Do's and Don'ts of Refinancing

When you're ready to apply for a home refinance loan, you'll need to run the numbers to see which option gets you the best deal. Here are steps you can take to figure out your new loan amount

Do

- Shop around for the best rate and service
- Keep an eye on your credit score and report
- Keep making all your usual monthly payments unless your loan officer specifies otherwise
- Determine if you will have a prepayment penalty by paying off the loan early
- Don't be afraid to interview your loan officer - ask for rates, programs, and payment projections

Don't

- Tap into new credit during your refinance process
- Walk blindly into the loan - do your research and have your loan officer inform you
- Assume you'll be getting the best rate at your local bank just because you're a customer. It's worth it to shop around!
- Assume all lenders charge the same fees
- Stall the process - make sure you have the necessary documentation to move forward

The Refinance Process

Four steps to educate and empower

1.) Ensure you're getting the best deal possible

Don't be hesitant when it comes to shopping around for the best interest rate. To make the process more seamless, it helps to start compiling your documentation and information at this step so that your loan officer can get you quotes more effectively.

2.) Lock your rate & get into underwriting

Are you in love with your rate? Awesome! From here, you'll lock your interest rate and your lender will let you know if they require any additional items to get you into underwriting.

3.) Approval process

Once your loan has been underwritten, there may still be a few items required on your end. Your lender will also be in touch with escrow and title to collect title reports and other crucial documents applicable to the home refi process.

4.) Final approval & loan signing

Congratulations on reaching this step! your loan has been final approved. escrow will be in touch with a notary and they will orchestrate your signing. The use of mobile notaries is common and highly convenient - they can meet you almost anywhere! Once your final loan docs are signed, your loan will be funded and your loan officer will inform you on when to make your next payment.

Was the juice worth the squeeze?

Did your refi accomplish your goals?

• How much were you able to lower your monthly payment? Or did your payment increase?

• Did you decrease the number of months left on your payments, or did you increase them?

• Did you tap into your equity with a cash-out refinance so you can remodel your kitchen? Or did you use the cash-out to consolidate some debt?

• What are your short-term and long-term goals? Did completing this home refinance assist you in achieving those goals?

Frequently Asked Questions

"Do I really skip a mortgage payment when I refinance?"

So you just closed on your home refinance, and you want to know when your next mortgage payment is due. Let's say you closed your refi on October 15th. On November 1st, when you would typically be gearing up to make your monthly payment, you'll actually end up not making this payment. So your new mortgage payment wouldn't be expected until December 1st in this particular scenario.

But why is this? Are you actually skipping a payment? Let's spill the tea: You're not necessarily omitting the payment. However, the refinance process does elicit the impression that the payment is skipped, and this is because you are temporarily switching up the schedule of your regular payments.

In this instance, even when you do not actively make your usual November mortgage payment, when the time comes for the payoff on your old loan to be ordered near the end of your loan process, the interest that you owe on the remaining days of the month are included in this total amount. So in this particular loan scenario, there would still be 16 days left in October. So essentially, 16 days of interest still must be paid.

Remember when we touched on how a refinance is best defined as the act of replacing your old loan with a new one, often for a lower interest rate? Well, your new loan collects the 16 days worth of interest that you still owe. Referred to as "prepaids," you may pay this amount out of pocket at closing, or you may roll this into your new loan amount. It truly depends on personal preference and the amount of cash you have handy at that given moment in time.

Since a mortgage is paid in arrears, guess when you pay for the month of November? You guessed it! December 1st.

Frequently Asked Questions

“Can I buy down my interest rate?”

To buy or not to buy...that is the question.

First, it's essential to discern whether or not a rate buy-down makes sense for you and your pocketbook.

So what exactly is a buy-down? Behind every interest rate is a series of points that dictate pricing and shift via market fluctuations. These mortgage points, sometimes referred to as "discounts" or "pre-paid interest points," allow you, the consumer, to buy your interest rate up or down. One of these points is equal to 1% of your total loan amount. Additionally, a .25% rate reduction is exchanged for a 1 point buy-down on average.

How does this work? Well, let's say your home loan is $400,000, your interest rate is 3.5%, and you want to buy your rate down 1 point. Proceeding as such would mean that you pay $4,000 at the closing table to buy your rate down from 3.5% to 3.25%. So over the life of your loan, buying your rate down even just 1 point might possibly equate to thousands of dollars in interest saved.

Some people may prefer to keep their interest rate at "par," meaning the rate does not require any lender credit or discount points. Depending on what the market looks like, you may choose to keep your interest rate parked where it's at and keep that extra cash in your pocket.

Frequently Asked Questions

"Do I have to take a 30-year fix, or can I take a shorter term?"

The option is entirely up to you! Although the most popular mortgage is a 30-year, fixed-rate loan, electing to proceed with a 15-year fixed, for example, could reap loads of savings on interest. Choosing a shorter term may also help when it comes to gaining equity more quickly.

A 15-year loan means that you will make payments on your loan for 15 years until it's paid off in full, and a 30-year loan means you will make payments for 30 years.

30 Year Fixed:

- Lower monthly payment
- You might be able to afford a more expensive home
- More time on the clock to pay off the mortgage in full
- Interest rates tend to be higher
- Equity developed over a longer period of time
- More interest is paid over the life of your loan\

15 Year Fixed:

- Mortgage paid off faster
- Less interest paid over the life of the loan
- Interest rates tend to be lower
- Higher monthly payment
- More money going towards your mortgage payment each month and potentially less set aside for other financial goals
- Might limit your housing budget depending on your situation

Frequently Asked Questions

"When will my PMI fall off?"

Are you eager for your private mortgage insurance to go away?

Ditching your PMI could significantly save you money on your monthly payment. As soon as your outstanding mortgage balance hits 78% of your home's value, your mortgage servicer is required to cancel your PMI free of charge. However, you may request in writing that your servicer cancel your PMI as soon as your loan reaches 80% LTV, meaning you have 20% equity in your home.

Is your loan an FHA program? You'll actually have to refinance out of your FHA loan and into a conventional loan once you hit 20% equity in order to drop your PMI. Just make sure your payment history is consistent and timely, seeing as late payments could make it harder to cancel your PMI.

What are title and escrow?

When you embark upon your home refinance journey, you will likely experience several moving pieces, all of which are essential to achieving the end goal. You'll hear the word "escrow" used quite often. Escrow is a third-party service set in place to help manage the disbursement of property taxes and homeowner's insurance payments.

Whenever the LTV on your loan is higher than 80%, establishing an escrow or impound account for your taxes and insurance will usually be required depending on your lender

So now you understand the role of escrow in your DIY REFI (Do it yourself refinance)... but what is title? You will be required to pay for title insurance at closing, and in exchange, you will receive proof that you are the legal owner of the property you are refinancing. The primary responsibility of the title company is to conduct the necessary research at the onset of your home refinance. This research includes a title search and providing essential reports and paperwork to your lender to rule out any judgments and unearth crucial pieces of information applicable to the refinance process.

Escrow/title is also responsible for getting you coordinated with a notary to help collect your signature on loan docs at the end of the refinance process.