

The Government Can Help you Refinance Your Home

As you might expect, over the last few months a number of my clients have refinanced their homes – taking advantage of the historically low interest rates to either lower their payments or shorten their pay off schedule. As my last column expressed, the time is certainly right for doing so and I would highly doubt that interest rates will remain at this level for an extended period. More likely, a few years from now we will all be telling “remember when” stories while cherishing the low cost financing we locked in during this window of opportunity.

While every one of my clients that has refinanced is thrilled with the end result, they have also universally agreed that it was an arduous process. The documentation requirements for a conventional mortgage have always been voluminous but following the financial crisis they have taken on a new level of complexity. Be prepared to provide copies of everything you can imagine – and sometimes in multiple.

All of the paperwork requirements are perhaps frustrating but the end result is almost certainly well worth it so just grin and bear it.

Financial institutions are enforcing underwriting standards on a much stricter basis than what was often used just a few short years ago. Where once it seemed like just about any loan could get approved, now the ability to repay the loan is actually being carefully evaluated prior to approval. Things like credit scores and debt-to-income ratios are once again being given serious weight. While perhaps a hard pill for some to swallow, I actually think a return to traditional underwriting standards may be good for our society of over-spenders.

Unfortunately however, I have had three clients face an issue with refinancing that was not related to underwriting standards or just a matter of inconvenient paperwork requirements.

Appraisers are being held to very strict accuracy standards today and people are routinely surprised by what they are told their home is worth. In some cases values in our area have declined 10-20% or even more. To avoid having to pay private mortgage insurance (PMI) a mortgage is generally required to be for less than 80% of the value of the home. If the value has declined too much, the borrower may have to choose between bringing extra cash to closing to pay down principal or having to pay PMI each month. In extreme cases (which are actually commonly seen in some parts of the country), the home value has declined so much that it is actually worth less than what is owed, making conventional refinancing impossible.

Fortunately, there are several programs out there to help people with their mortgage.

While individual financial institutions may offer their own programs, on a federal level most of the mortgage related programs fall under the Making Home Affordable (MHA)

initiative which is run by the Departments of the Treasury & Housing and Urban Development.

MHA actually offers quite a few programs, many of which are targeted to specific niches of people. They have two broad programs that are designed to impact as many homeowners as possible and which you may find yourself eligible for.

The first, and the more widely publicized of the two, is the Home Affordable Modification Program (HAMP). It is designed for people who want to keep their home but are struggling with their mortgage payments. To be eligible the owner must live in the home and either be delinquent or in danger of falling behind. The program provides for the mortgage payment to be modified to just 31% of monthly verified income. Often this program is used in cases where people bought their home using an unconventional mortgage structure but can also work in cases of an unexpected decline in income.

The second program is lesser known but, in my opinion, perhaps the one that should be more highly touted. The Home Affordable Refinance Program (HARP) is designed specifically for people who have a good payment history but that have had difficulty with traditional refinancing because their home value has declined, leaving them with little to no equity. In other words, it is designed to help people who have kept current with their mortgage payments take advantage of today's interest rates, even if they don't have enough equity in their home to refinance conventionally. It does not modify the mortgage or adjust the payments to income – it simply allows the existing mortgage to be refinanced at the current interest rate.

There are a number of other programs available that are designed for veterans, to deal with second mortgages and even to sell a home for less than what is owed on it. To get more information I suggest that you start with the website, www.makinghomeaffordable.gov. It contains basic information about the programs and gives you an avenue to request additional information.

Once you have some basic knowledge of the program(s) which you think you may qualify for, give your current mortgage holder a call to discuss what you can do. They may be able to help you but if they can't don't stop there. Contact the Homeowner's Hope Hotline at 888-995-HOPE. Your home is likely the single biggest purchase you will ever make – obtaining the most advantageous financing possible is too important to not exhaust every possibility.

Trisha Arndt, CFP, is president of Wealth Strategies of Wisconsin Ltd, 535 Half Mile Road, Ste 5B, Verona, 848-2400. Securities and Advisory Services offered through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser.