

Loan Modifications vs. Refinancing

Contributed by Flower
Saturday, 11 April 2009

With all the news about a new wave of foreclosures coming through and my current research to help cancer patient-Journey and her family not lose their home to foreclosure, I thought I would post this in my blog this week. If you are an investor who is holding property and haven't yet found taken advantage of the lower interest rates available, I recommend a loan modification. If you are a homeowner whom is struggling to keep up, I would first say to do a loan modification and if that doesn't work, a refinance. If neither of those options are working for you or you would like help with a loan modification or refinance, send me a message through this site as I'm working with investors who help families in your situation avoid foreclosure through these and other methods. Here's the article...

Mortgage modification, easy refis available

By Holden Lewis • Bankrate.com

You don't always have to spend a lot to reduce your mortgage's interest rate.

Lucky homeowners can "modify" their mortgages, paying their existing lender a few hundred dollars in exchange for a reduced interest rate on the current loan.

"Rates have been dropping. People have been refinancing. It doesn't hurt to ask for a modification," says Jim DuBose, president of Colonial Savings, a mortgage lender based in Fort Worth, Texas.

Modification vs. refinancing

Loan modification, DuBose says, is "pretty painless. We send them a couple of things to sign. It's not like going through another closing." He cautions, though, that it doesn't happen often because Colonial Savings, like most big lenders, sells most of its mortgage loans on the secondary market. In that case, you have to refinance the loan to get a lower rate.

If refinancing is your only option, don't automatically switch lenders. Shop first with your current loan servicer. It might offer you a "streamlined" refinancing, requiring less money, paperwork and time than other lenders require.

The difference between a modified mortgage and a streamlined refinancing lies in the length of the loan. When you modify a mortgage, you keep repaying the same loan. When you refinance, you start all over again with a new loan.

Let's say you have a 30-year mortgage and have been paying it for five years. If you modify the loan at a lower rate, you still have 25 years remaining on your mortgage. It's the same loan, at lower interest. On the other hand, if you refinance the mortgage, your old loan is paid off and you start off with a brand-new loan for the term you choose, whether it's 15, 20 or 30 years or some other period.

In practice, the line between modified and refinanced mortgages gets blurry. Some lenders call it a modification if you have an adjustable-rate mortgage and switch to another mortgage with the same lender.

Modifiable mortgages

Not every mortgage can be modified -- in fact, the majority can't. Most mortgage lenders don't hold onto your loan for long.

They sell it to Fannie Mae, Freddie Mac or Ginnie Mae. The government-sponsored enterprise, in turn, bundles your mortgage with others to create a mortgage-backed security, which works somewhat like a corporate bond. Investors buy these securities.

You can no more change the interest rate on a securitized mortgage than a farmer can buy back his corn crop after it has been sold, stored in a grain elevator with other farmers' crops, loaded onto rail cars, and packed into sacks of cattle feed. Because you can't change the interest rate on a securitized mortgage, you can't get a modification.

"The only people who really modify loans would be portfolio lenders," DuBose says.

A portfolio lender keeps loans on its books instead of selling them on the secondary market. Many lenders, such as DuBose's Colonial Savings, sell most of their long-term mortgages but keep a few in their portfolio. Credit unions are likelier than banks to hold mortgage loans in their portfolios.

Streamlined refinancing

If the lender sold your loan, don't despair. Ask if you can get streamlined refinancing. You pay fees for a streamlined refinancing, but the lender might not require a credit report or appraisal. Those two items alone can cost \$350 or more. Appraisals usually take several days.

Bottom line: When hunting for a lower mortgage rate, call your loan servicer's customer-service number in the coupon book or monthly statement. "Ask if current customers have any special deals available to them," says Susan Huber, senior vice president of investor relations for SunTrust Mortgage Inc. At SunTrust Mortgage, a streamlined refinancing requires limited paperwork. "We're just looking at the payment history and then we are going to need to get some kind of value determination," Huber says. The bank

doesn't require a full appraisal to determine a home's value for a streamlined refinancing; instead, the bank will use an automated valuation, in which a computer program estimates the home's value. If the mortgage is less than a year old, SunTrust doesn't even require an automated valuation. "You can close these loans very fast," Huber says. "Let's say we had a conforming loan that was less than 12 months old that the borrower paid on time -- we're not looking for any documentation at that point. We could probably do it in just a couple of days. At that point all you need to do is put the closing documents together."

This explains why it pays to shop. Another lender might offer a lower rate but higher fees than your current lender would charge for a streamlined refinancing. You have to do the math to figure out which deal is better. If you plan to stay in the house for a long time, the lower rate and higher fees might make sense. If you plan to move out within two or three years, it might be cheaper to take the slightly higher rate and lower fees.