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The Refinance Market Isn't Dead Yet

Five strategies can keep your refinances alive and well during this year and beyond

Believe it or not, there was a time when homeowners refinanced for reasons other than to get a lower mortgage rate. Remember the days when home equity was rising and people needed cash for upcoming life events? Somewhere in the whirlwind of the Home Affordable Refinance Program and interest rates in the range of 3 percent, many originators forgot the most basic reason why people refinance: to get into a better financial position.

It's time to relearn the art of refinancing, if for no reason other than to hedge against trailing-off purchase business as home prices rise and inventory shrinks. Consider the following five refinance strategies that will help you capitalize on upcoming social and economic trends. If you formulate your plan now, you can keep your refis alive for years to come.

1. Reimburse cash buyers

This past February, a staggering 43.3 percent of nationwide home purchases were all-cash sales, according to RealtyTrac. Some areas showed even higher percentages of nonfinanced transactions. In Miami, for instance, about 71 percent of sales were all-cash purchases, and not far behind were Las Vegas at about 60 percent and New York at about 57 percent.

There are several reasons for this trend. Some homebuyers don't want a mortgage

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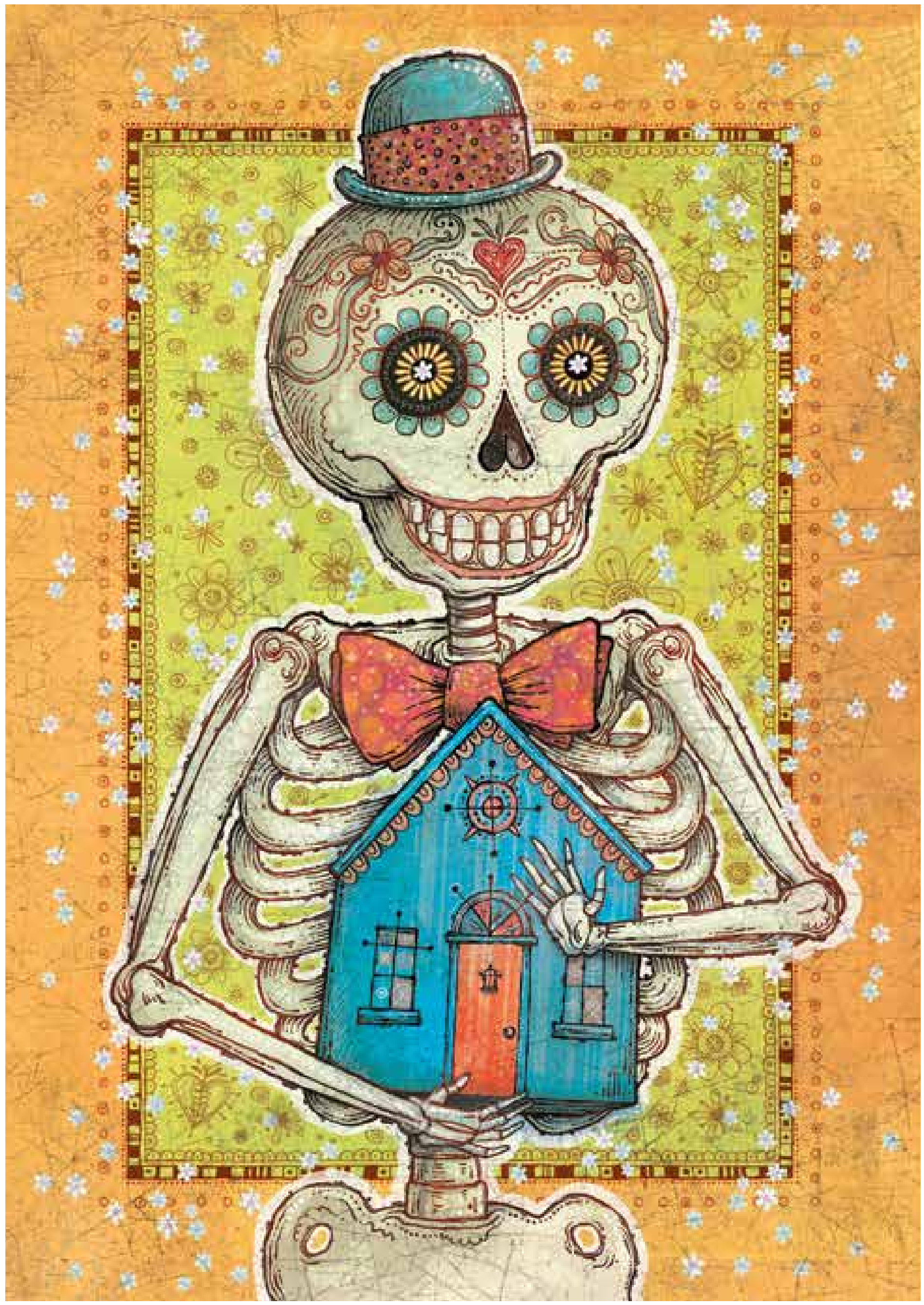

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and don't need one, but many buyers pay with cash because they're buying a distressed property that's in bad shape or being sold at auction. Sometimes, competition is too stiff to write financing into the offer.

Although real estate agents don't mind all-cash sales because they get paid faster with no financing, mortgage originators are left out of the action. But what if you could become an expert at reimbursing cash purchases?

Many homebuyers — owner occupants and investors alike — wouldn't mind having as much as 70 percent of their purchase price reimbursed. After the sale, the competition for the home is over, and there are no deadlines to meet. With this reduced pressure, many cash buyers may be open to a mortgage to increase their cash on hand.

In 2011, Fannie Mae started allowing cash-out refinances immediately after a cash purchase. A buyer no longer has to wait six months to satisfy the seasoning requirement. This is called the Delayed Financing Exception, and it can reimburse a buyer based on standard cash-out rules.

To qualify for the Delayed Financing Exception, the transaction must have been arm's length, the source of the funds must be documented and the buyer must supply the HUD-1 form from the sale. Even investors with five to 10 financed properties are eligible. This provides serial investors with a real solution if they want to inject cash back into their businesses.

Don't be left out in the cold as cash sales approach 50 percent of the purchase market. Turn these former dead ends into a real income stream.

Get prepared:

- Have an in-house or brokered source for Delayed Financing Exception cash-out refinances. Alternatively, seek a brokered relationship with a lender that allows it.
- Find cash buyers in your area. Create a marketing campaign to let them know how you can reimburse them part of the purchase price.
- Let your real estate agents know about the Delayed Financing rule and how you can help their cash buyers. With increased cash, their clients might buy again.

2. Ditch mortgage insurance

The mortgage world is currently bemoaning the recent increases in Federal Housing Administration (FHA) mortgage insurance. The most noteworthy FHA fee hike is the lifetime mortgage insurance requirement on most FHA loans opened after June 3, 2013. To put it another way, unless your FHA clients refinance, they will probably pay mortgage insurance for the next 30 years. It's likely that many of your past FHA buyers are experiencing excellent home appreciation and soon could qualify for a conventional refinance. Although a conventional refi will probably include private mortgage insurance (PMI), it could still be a great benefit to them.

Let's assume that a client shoots for 10 percent equity before proceeding with the conventional refinance. Your borrower could save money immediately, since PMI is typically cheaper than FHA mortgage insurance.

More significantly, your client will see a "light at the end of the tunnel" as far as mortgage insurance is concerned. Conventional PMI can be a thing of the past in as little as two years.

Even if it takes five years to ditch their PMI, conventional refinances still will save many of your clients 20 to 25 years of FHA mortgage insurance payments. When their mortgage insurance finally drops off, they'll tell all their friends how you helped them do it, which will lead to more transactions.

Get prepared:

- Comb through your past FHA borrower list. Look especially for borrowers with application dates after June 2013.
- Find clients who qualify for conventional loans based on credit score and approximate current home value.
- Group clients into those you want to contact now — or three, six or 12 months from now — based on appreciation levels. Contact them accordingly.
- Do more in-depth analysis of a conventional refinance for those who are interested.

3. Take a bite out of tuition costs

Four-year public college tuition and fees have increased an average of about 4 percent per year for the past 30 years, according to Collegeboard.org. Federal student-loan rates are fixed, but change once per year according to the 10-year Treasury note. Everyone in the mortgage business knows how unpredictable the 10-year note can be.

So, ask yourself: What would you do if you were a parent of a 15-year-old, and you didn't know where the 10-year note would be in three years? Student-loan rates could potentially rise all the way to the government-mandated cap — between 8.25 percent and 10.5 percent, depending on the type of loan.

A cash-out loan at current interest rates could be a wiser move than rolling the dice on future student-loan interest rates. Parents with a lot of equity in their homes could prepay college tuition, and do it at a low, tax-deductible rate.

In Washington state, for instance, there's a program called the Guaranteed Education Tuition (GET) program. Parents can buy college credits at today's cost to be used later — even 18 or 20 years later — when costs will be much higher. Programs like this can be an excellent selling point, so be sure to see if your state offers a similar program.

Parents of graduates also may provide additional cash-out refinance business. They may have to help a child who has a low-paying job, for instance, and huge student-loan payments.

According to U.S. News, average student-loan debt was $29,400 in 2012, up from $18,750 in 2004. There's $1.2 trillion in outstanding student-loan debt, and more than 7 million student-loan borrowers are in default. You could be a valuable resource to parents — and keep refinance business coming through your door — if you offer solutions to help manage these tuition-related issues.

Get prepared:

- Create strategies to help parents of college-bound kids.
- Categorize past clients based on the current ages of their dependents.
- Inform these clients about their cash-out refinance options to help pay for college-related expenses.

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4. Lower retirees' living costs

As of 2012, there were about 51 million people in the United States between the ages of 55 and 69 — almost 17 percent of the population — according to the U.S. Census Bureau. Many of these individuals have substantial equity in their homes. Unfortunately, not all of them have adequately prepared for retirement.

Retirees' biggest bills will be either their mortgage or medical costs. Although you can't help them much with medical bills, you can ease the burden of their mortgage payments. Here are a few ideas:

- **Offer reverse mortgages.** A reverse mortgage eliminates the homeowner's mortgage payment. Although it is not ideal for everyone, it can be a powerful tool to help individuals who retired too early or expect to run short on retirement funds.
- **Change the term.** Many homeowners refinanced into a 10- or 15-year loan recently, but what if some of these borrowers are forced into early retirement? Going back to a 30-year loan would help these clients lower their costs. Conversely, homeowners around the age of 55 might want a 10-year loan to set them up for retirement at 65.
- **Consider an adjustable-rate mortgage (ARM).** Offer ARMs to borrowers who expect to pay off their homes in five to seven years. An ARM will keep their payments ultra-low and maximize their retirement savings.

Many more refinance-related solutions for retirees are out there. Now is your chance to help your aging clientele and create new revenue streams while you're at it.

Get prepared:

- Understand the current financial struggles of retirees.
- Formulate refinance-related solutions for common retirement struggles.
- Form relationships with financial planners and other retirement advisers. Be a resource as they encounter clients who need financial help in retirement.

5. Refinance vacation homes

According to the National Association of Realtors' 2014 Investment and Vacation Home Buyers Survey, sales of vacation homes were up nearly 30 percent in 2013. Vacation homes made up 13 percent of all transactions.

In some cases, vacation-home buyers don't have cash on hand for downpayments, but do have significant equity in their primary residence. Many potential buyers don't realize that they can qualify for a vacation home.

It may be a great option for them to cash out their current equity to buy a vacation home. These properties can be great long-term investments and a place to build memories for years to come.

Get prepared:

- Look up maximum loan-to-value and combined-loan-to-value ratio guidelines for primary residence cash-out products.
- Use marketing and advertising to target buyers who fit your second-homebuyer profile.
- Reach out to real estate agents who are vacation-home specialists.

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These five strategies are not an exhaustive list by any means. Even so, they'll hopefully get you thinking about ways that you can leverage current and future trends to increase your business. With planning, you can take advantage of continuing opportunities in the refinance market — a market that isn't dead but is just being reborn. ●