

A New Way to Cut a Mortgage

'Recasting' Your Home Loan Can Lower Monthly Payments With Fewer Hassles

By M.P. McQueen

Some homeowners who already have refinanced into low-interest-rate mortgages are using a little-known strategy to make their monthly payments even smaller.

Called "recasting" or "re-amortizing," the strategy allows a borrower to lower the monthly payment on an existing fixed-rate home loan for a small fee without having to apply for a new loan and without having to pay reappraisal and other fees.

Recasting also may enable homeowners to save on interest paid over the life of the loan, merely by putting a large sum of cash against the principal, whether or not they have refinanced already.

The bad news? Banks don't advertise the strategy, perhaps because it is less lucrative than refinancing a mortgage. And not all loans are eligible. To find out more, you will have to ask your lender directly.

At [J.P. Morgan Chase](#) & Co.'s Chase Home Finance unit, less than 200 mortgages a month are recast out of 10 million home loans outstanding, a spokesman says. At [Bank of America](#) Corp., about 200 to 300 a month recasting requests are received out of about 14 million home loans serviced by the company, a spokesman says. Neither bank has seen increased demand.

Here is how it works: A homeowner asks his loan servicer if he can put a large sum of money against the outstanding principal on the mortgage. Ordinarily, doing so would enable him to pay off the loan early, but he would still have to pay the same monthly note. But if the lender agrees to recast the mortgage, he may be able to reduce the monthly payment over the remaining term of the loan.

For example, a person with a 30-year \$300,000 fixed-rate mortgage and an interest rate of 4.75% who recasted one year into the loan by putting in \$60,000 toward the principal would trim his balance to \$235,371. Assuming there were 29 years left on the loan, that would result in a monthly payment of \$1,247 instead of the original \$1,565.

Recasting can be a good choice for borrowers who have cash and want to reduce monthly payments but who can't refinance, such as those with no-documentation loans, most of whom can't get the same types of mortgages today due to tighter regulations, even if they have high income and good credit. (Self-employed professionals often find

themselves in this boat.) And at a time of low interest rates on certificates of deposit and U.S. Treasury bills, paying off a mortgage early is a relatively safe investment that brings a return at least equivalent to the interest rate on the mortgage itself.

There are downsides to the strategy. Many financial experts advise against putting additional cash into one's residence, arguing that higher returns historically have been available in the financial markets and interest rates on bonds are likely to rise eventually.

They also warn of the possible tax consequences of retiring a mortgage early, because mortgage interest on a primary residence can be tax-deductible.

Mortgage recasting resembles a "cash in" refinancing—a newly popular strategy in which a borrower pays down principal on an existing loan in order to qualify for a new loan with a lower interest rate. In a recasting, though, the interest rate and the number of payments remain the same, and there are no transfer and title costs.

Getting permission to recast a loan can be tricky. The loan must be in good standing, and you need to secure permission from the loan servicer, who may or may not be the original lender. If the loan has been sold to an investor, the servicer also must secure its approval.

Since nearly two-thirds of all outstanding mortgages have been sold to investors via mortgage-backed securities, some homeowners could find this step difficult, especially those with subprime and "jumbo" mortgages. (Jumbos are loans that are too big to receive government backing through Fannie Mae, Freddie Mac or the Federal Housing Administration.) If approved, the borrower will need to sign a modification agreement, a legal document recording the change of contractual terms.

Each lender sets its own fees and requirements. Chase requires a minimum \$5,000 principal payment to recast a loan and charges a \$150 fee, for example. Bank of America generally charges \$250. It suggests at least \$1,000 be paid toward the principal, but has no minimum.

John Henry Low, a fee-only financial planner in Pine Plains, N.Y., says homeowners should have one to three years in savings as an emergency fund before tying up additional cash in their homes, even if the account is "paying nothing."

A financial adviser in Pennsylvania says he refinanced a \$270,000, 15-year mortgage in November 2009 on a second home at a 4.25% interest rate. This year, he inherited some money and instead of having money "sitting around in a money-market fund earning a fraction of 1% interest," he decided to put \$75,000 to pay down principal on his mortgage.

So he requested a recast in a letter to Chase, which had acquired the loan. To get it, he paid a \$150 fee.

With 14 years remaining on the mortgage, his balance was reduced to \$170,020, factoring in additional payments he had been making toward the principal. This reduced his monthly payment of principal and interest from \$2,032 to \$1,322, excluding escrow payments—a savings of \$710 a month.

If he puts the \$710 monthly savings back into the principal, he will pay off the mortgage in a little less than eight years, saving \$24,300 in interest. He also has the flexibility of a reduced monthly payment "in case I lose my job or something in the future," he says.

You don't need to recast your loan in order to save thousands of dollars in interest over its life. You can simply make additional payments toward principal on an existing mortgage without paying a dime in additional fees, or make a 13th mortgage payment each year—assuming, of course, the loan has no prepayment penalty.

One thing in homeowners' favor: The recent overhaul of banking regulations has severely restricted prepayment penalties on new mortgages.




Write to M.P. McQueen at mp.mcqueen@wsj.com

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit

www.djreprints.com

MORE IN **PERSONAL FINANCE**

-  [Email](#)
-  [Printer Friendly](#)
-  [Order Reprints](#)
-
-