

# Recast (Re-amortization)

1

**M**ost fixed rate mortgages amortize one time, at closing. Your minimum monthly payment, for the duration of the loan, is based on the starting principal balance. If you make extra payments after closing, either by over-paying monthly or paying extra chunks, your minimum monthly payment will not change. Instead, extra amounts you pay shorten the loan term.

There are, however, some mortgages that come with the option to re-amortize or “recast” after closing. When recasting, you pay an extra lump-sum toward principal and your lender actually reduces your monthly payment (keeping your loan term the same). This can be a very cool feature. First, a few details and then we’ll offer up some possible uses.

## Eligibility and Rules

Whether or not you can recast your mortgage depends on the type of loan and your loan servicer. Most fixed rate loans sold to Fannie Mae and Freddie Mac are eligible, as are many jumbo and portfolio loans, (FHA, USDA and VA loans are not).

However, to exercise a recast option, you need a willing loan servicer and you’ll need to follow their rules. Some servicers allow only one recast in the lifetime of a loan, others allow up to one per year. Many have a minimum principal reduction required, either a dollar amount (\$5k-10k is common) or a percent of the loan balance (10%, in some cases). Always expect to pay a processing fee—\$200 to \$500.

## Recasting vs. Just Overpaying vs. Refinancing

Whether or not a recast is a good idea depends on your goal. If your goal is to pay your loan off as quickly as possible, you probably don’t want to bother with a recast. A recast lowers your payment but doesn’t shorten your loan term.

If, on the other hand, your goal is to lower your payment, a recast is an easy and economical solution. For a nominal fee, you’ve got your lower payment—no muss, no fuss.

If present interest rates are lower than the rate on your loan, or you have some goals beyond just a lower payment, you may want to compare a refinance with a recast. A refinance will almost certainly cost more and involve more paperwork, but if you can lower your interest rate enough or achieve your other goals, the added cost and effort may be worth it.

## Examples

We love a recast option for so many situations. Whenever your desired timing for closing and the availability of your cash don’t line up, a recast option can be a perfect workaround:

- You found your dream home. You have lots of equity and plan to sell, but the seller will not accept a contingent offer. Scrape together a minimal down payment, close and recast your loan after the sale of your old home goes through.
- You’ve got your sights set on a fixer-upper and need to remodel it before moving in. Don’t worry about putting down too much and running short of funds to remodel. Make a minimal down payment for starters, complete your remodel and recast your loan with what’s left over.
- You plan to sell more than one property and combine proceeds to buy a new property. Don’t worry about

lining up timing on two sales and a purchase. Sell one property and buy the new one. Apply the equity from the other property (whenever it sells) via a recast.

- You want to experiment with hanging onto your current home as a rental, but you're not 100% sure you will like being a landlord. Buy your new place and try out renting your old one. If you decide to sell, you can always recast your loan later.
- You expect an inheritance, gift or bonus or other significant influx of cash, but you don't want to wait for it. Work with what you have and buy now. You can lower your payment via a recast when the other funds roll in.

### I Want One!

If you want a recast option, talk to us. In most cases, we can arrange one for you. If you do not specifically request a recast option, it is hit-or-miss as to whether or not you'll wind up with one.

