The Mortgage Corner

'Cash-in' Mortgage Refinancing Becoming Popular

The so-called 'cash-in' mortgage has become more popular of late for a number of reasons. It means paying down the mortgage, which is the opposite of cash-out refinancing where borrowers are taking cash out of the equity in their homes.

The main reasons homeowners are doing cash-in refinancing are first, bringing the loan amount more in line with lower home values. But also homeowners find that paying down, say, a 5 percent mortgage more quickly means they are saving 5 percent, vs. the very low interest rates from regular savings.

Amy Crews Cutts, deputy chief economist for Freddie Mac, says "The Fed doesn't intend to start raising interest rates for a while...you're not going to make money in CDs. (And) The stock market is giving people heart attacks on a daily basis with its ups and downs."

Consumers are paying down their overall debts with a vengeance in these uncertain times, as we have said in past columns—in part because mortgage rates are now at all-time lows, with conforming and so-called jumbo-conforming 30-year fixed rates below 4.5 percent. Even super-jumbo rates to $2 million are hovering around 5 percent these days.

And it looks like housing prices are finally on the mend with the latest (May) seasonally-adjusted Case-Shiller Home Price index up 1.3 percent. Economists caution that it is measuring prices during the height of the selling season, but 19 of the 20 cities in the index showed increases.

The Composite 10 is up 5.4 percent compared to May 2009. The Composite 20 is up 4.6 percent compared to May 2009. This is the fourth month with Year-over-Year price increases in a row.

Here are some reasons borrowers might consider a cash-in refinance, according to CBS Marketwatch:

- If it allows the borrower to stop paying private-mortgage insurance, required when the mortgage is more than 80 percent of the home's value. Extra cash could allow a borrower to eliminate PMI, saving them monthly premium costs.

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- Borrowers want to reduce their mortgage term, perhaps moving from a 30-year to a 15-year fixed-rate mortgage, Hsieh said. The extra cash can reduce the mortgage amount and make their monthly payments bearable.

- When the extra funds may get a borrower the lowest rates possible -- those that require a loan-to-value ratio of less than 60 percent and a FICO score above 740, said Jack Pritchard, a mortgage consultant who co-founded Refinance.com, a site that helps borrowers evaluate mortgage and refinancing options.

- Extra cash can also sometimes bring a mortgage under the conforming loan limit so the borrower doesn't have to pay higher jumbo rates. The conforming limit is $417,000 for single-family homes in many markets, and $729,750 in high-cost areas of the contiguous United States.

In what may be another sign of an improving housing market, the homeowner vacancy rate declined to 2.5 percent in Q2 2010. A normal rate for recent years appears to be about 1.7 percent, according to Calculated Risk. "This leaves the homeowner vacancy rate about 0.8 percent above normal. This data is not perfect, but based on the approximately 75 million homeowner occupied homes, we can estimate that there are close to 500 thousand excess vacant homes."

Note that the vacancy rate rose sharply from 2006 to December 2007, the beginning of the Great Recession, a sign of massive overbuilding that caused the housing bubble. But it has now fallen, though not yet enough to erase the inventory overhang above historical vacancy levels.

But a recovery is in the offing as the combination of record low interest rates, a Fed still in the mood to be accommodative for an "extended period', and housing prices back to early 2000 levels should entice more buyers into a buying frame of mind.

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