5 Keys to Finding Cash Out Options

By Joe Kelly - President of Heroes Come First, YouCanRefi, & ArcLoan

Please allow me to first introduce myself and give you some credentials for providing you with important information in this guide.

In today's chaotic mortgage industry it is more important than ever to work with ethical, experienced, financially-sound mortgage professionals.

Our Mission Statement:
To provide both homeowners and potential homeowners, throughout the United States, with financial education strategies which enable them to take advantage of interest rate cycles, and mortgage management techniques to help them increase savings and reduce debt.

For Heroes we provide additional practical and financial rewards as a thank you for your service!

Our History:
The **ArcLoan Mortgage Management Program** was created in 1993 by Joseph Kelly. Mr. Kelly has a unique blend of technical, marketing, sales and leadership experience. As a graduate of the University of Virginia with a degree in Aerospace Engineering (yes….a rocket scientist), he realized that the mortgage industry was lacking a critical component – consumer education. From 1991 to 1996, he was ranked among the top 1% of loan officers in the United States. Since 1997 Mr. Kelly has managed mortgage organizations, providing over $3 Billion in residential mortgages nationwide through bank-owned mortgage companies. This allows us to offer mortgage management programs in all 50 states.

As a pro-consumer organization, our business model is built on building relationships, not pushing sales. Our philosophy is simple: Keeping Customer Loyalty By Earning It!

Our corporate culture was built around INTEGRITY, RELIABILITY and CREDIBILITY, which are rare attributes in the mortgage industry. We are proud to say that our programs have helped thousands of consumers across the United States. Our expert client services capabilities, coupled with our ability to offer sound, educational advice, has resulted in a 90% client retention rate.

Ok. Now that I've introduced myself, let's move forward with some information that can *help you*!

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Congratulations!

So! You own a home and are enjoying the benefits of home ownership.

One of the best benefits is “appreciation” and the increase of equity in your home. Whether this has come from paying down your mortgage over time or market appreciation, it is always a good thing because it means your assets are INCREASING.

Of course life would be wonderful if we never needed additional cash and could be living debt free. And that is, of course, the goal. But for many, that goal is not yet complete and we have “life” items which must be paid for.

Other types of debt such as credit cards, car loans, 2nd mortgages, education costs, home improvements, etc., come up as part of life. The choices (and options) of whether to pay for these expenses using “long term debt” such as a mortgage, or “short term debt” such as credit cards, personal loans, etc. are important to weigh and measure.

Fortunately in most parts of the country, property values have been steadily increasing over the past few years. For many, hopefully *you* included, that means there is now increased equity in your property which you have access to.

According to a recent “Mortgage Monitor” report by Black Knight Financial Services:

> “There are now 39 million borrowers with tappable equity in their homes, meaning they have current combined loan-to-value (CLTV) ratios of less than 80 percent.
>
> **<u>“These borrowers have a total of $4.6 trillion in available, lendable equity—an average of about $180,000 per borrower—making for the highest market total and highest average per borrower since 2006.</u>**

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Are you considering taking cash out of the equity you have in your home?

Knowledge is POWER - Learn the basics BEFORE speaking to lenders

Let us start with a few key basics to make sure this information will be helpful to you. I know these might seem like common sense requirements, but just to be sure...

In order to consider a Cash Out Refinance on your home, you must have:

1. **A HOME YOU OWN.** It may be Owner Occupied, your Second Home or an Investment Property.
2. **EQUITY.** Your current mortgage(s) must be LESS THAN what you believe the current value is.
3. **DECENT CREDIT.** Different programs have different requirements. At a *minimum* you must NOT have any late mortgage payments within the past 12 months.
4. **VERIFIABLE INCOME.** You must have enough documented income to qualify for a new mortgage.

Good! Now that we know you meet the absolute basics, let's dive into more key details!

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Here are the 5 Keys to Finding Out Your Cash Out Options
that you will learn in this guide.

#1. Know how to weigh the Pro's & Cons of Cash Out Refinancing
#2. How much can you take out?
#3. How much is my house worth?
#4. How do I find a mortgage professional I CAN TRUST?
#5. What information do I need to have when I want to find out more details?

As you read this guide, feel free, at any time, to email us with questions.
We will be happy to give you more personalized service.

Premise:

If you decide to apply for a cash out refinance loan, you will be working with either a Bank, a Bank Owned Mortgage Company, a Credit Union, a Mortgage Banker, or a Mortgage Broker. There are thousands across the country. Among them are many excellent companies, many average companies and, sadly, many poor companies.

Key #4 will help you find the right one for you.

In today's mortgage world, almost all companies follow similar guidelines for underwriting. Most follow either Fannie Mae (FNMA) or Freddie Mac (FNMC) guidelines. Some companies have more flexibility and some have less. So if you end up being denied, you MAY want to speak to another lender before giving up.

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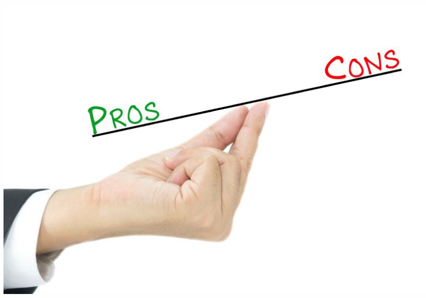
Key #1. Know how to weigh the Pro's & Cons of Cash Out Refinancing



Cash out refinancing allows you to refinance your home and pocket the extra cash at closing. The money that you get back can be used for debt consolidation, college tuition, home improvements, or anything else you wish to spend the money on.

Cash out refinancing is similar to taking out a second mortgage or home equity loan, with a few exceptions.

When you get a second mortgage/home equity loan, you end up with two payments - your existing mortgage payment plus the new loan payment.

VS.

When you get a cash out refinance loan, you completely pay off your first mortgage and replace it with a new one.

Pros

- Cash out refinancing can provide you with a lump sum of money to be used however you see fit.
- In most cases, cash out refinancing is easy to qualify for because you already own the home, and more importantly, you probably owe less than it is actually worth.
- There may be significant tax benefits to cash out refinancing if the loan is used to pay off other debt on which the interest is not tax deductible.
- If you can get a lower interest rate than what you pay currently, cash out refinancing can be a win-win situation.
- Interest rates are usually lower on cash out refinance loans than they are on home equity loans.

Cons

- When you take advantage of cash out refinancing, you may be required to use some of your equity to pay hundreds, or even thousands, in upfront closing costs. (Ask your lender about "**lender-paid closing costs**" which is an option in which the lender pays the closing costs.)
- Refinancing may extend the "term" (length) of your mortgage. (Ask your lender about how you can keep the same remaining term you currently have. Extending your current term will allow you to have lower payments. But the trade-off is more interest over time.)
- If you borrow more than 80 percent of the value of your home, you may be required to pay private mortgage insurance.
- If your home loses value, you could find yourself in financial trouble if you ever decide to sell.

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Key #2. How much can you take out?

The amount you may take as "cash out" in your refinance depends upon a number of factors. Work with a knowledgeable and experienced loan officer who will help you evaluate your options.

These factors include:

- The amount of equity you have in your home
- The type of mortgage you are applying for (they will have different guidelines for Cash Out)
- What you QUALIFY for

The amount of equity you have in your home.

Your equity is the Appraised Value *less* Existing Mortgages (or liens) on your property.

I.e. $300,000 - $200,000 = $100,000 equity

This is expressed as LTV (Loan to Value) or Existing Loans / Appraised Value. I.e. $200,000 mortgage *divided by* $300,000 value = .666 (66.6% LTV)

The type of mortgage you are applying for will have different guidelines for Cash Out.

VA Mortgages are for active-duty personnel, veterans and surviving spouses, and allow up to 100% LTV (depending on lender). In other words, a VA mortgage allows one to take 100% of the equity out on a property.

Conventional Mortgages are the most common type of mortgage. Cash out options vary on many factors. Typically for owner occupied or 2nd home properties, they allow up to 80% LTV for cash out.

FHA mortgages are only available on owner occupied properties. They allow up to 90% LTV for taking cash out. That's the good part. The bad part is that ALL FHA mortgages have "mortgage insurance" (called M.I.P., mortgage insurance premium) as part of the payment. Just keep that in mind when weighing the pros and cons of your decision.

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<u>What you QUALIFY for.</u>

Qualifying for a Cash Out Refinance is the same process as when you financed for the purchase, or if you have refinanced in the past. If the last time you went through this process was before 2016, you will notice some changes. Once you get to that stage, we will help you find a trustworthy and experienced lender who will "hold your hand" through the process and make it as easy as possible.

Unfortunately, when it comes to getting a mortgage, it can sometimes... almost always... feel stressful. Providing documentation for your employment, income, assets, etc. takes some effort.

People seeking a cash out refinance often find the process easier. Frequently, a portion of the cash being taken out is used to reduce some, or all, of your current debts. This actually IMPROVES your cash flow and lowers the ratios that lenders use to qualify you.

<u>But you DO still have to qualify.</u> And the amount you are looking to take as cash out, along with the current status of your income and credit qualifications, will affect HOW MUCH you can take out.

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Key #3. How Much is My House Worth?

It is very important to understand that when it comes to a mortgage, there is an important difference between what your property *might* SELL for if you listed and sold it, and what the lender says is the "APPRAISED VALUE." In theory, they should be close to the same. However, one never knows what a property would actually sell for until, of course, it is sold.

All lenders will require an appraisal on your property for a "cash out refinance." The cost of these appraisals range from approx. $400 to $800! It's expensive!!! Since the mortgage collapse in 2008, this part of the mortgage industry has undergone tremendous change.

Lenders must rely on the appraisal as an accurate report on the value of the collateral for your loan. So understandably if a lender is going to give you significant funds, they need to be sure that the property has enough "market value" to secure that loan.

Values change and Appraised Values are not an "exact science." Markets change all the time. Fortunately for many parts of the country, values have been increasing back to levels where they were before the crash.

So how can you get an idea of what your home might appraise for BEFORE spending $400 - $800 on an appraisal?

1. Zillow.com, Realtor.com, etc..... - These sites are wonderful for "getting an *idea* of value." BUT really that's it. They do a good job of showing other properties that have sold and providing you an "estimated value." **They are a GOOD starting point.**

But keep in mind **two key factors** as you look.

A. The Appraised Value of YOUR property is based on many, many factors and may be significantly higher, or lower, than what you see on these sites.

B. **Be CAREFUL!** Many of these sites will SELL your contact information as a "lead" to lenders. So if you end up putting in your information MAKE SURE TO READ THE FINE PRINT. Often people tell us they had no idea why they started to receive MULTIPLE sales calls about a mortgage and it turns out they had given their information on one of these sites.

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Here is a section of Zillow.com's "Terms of Use" which YOU agree with if you use their zEstimate service:

> f. **Calls.** If you, as a consumer, choose to contact a real estate agent or a Lender (as defined below) through the Services by filling out a contact or other request form on the Services, you authorize Zillow Group (specifically Zillow Group Mortgages, Inc. in connection with information provided to a Lender) to provide your name and contact information and other identifying information you provide to the applicable real estate agent or Lender. Further, if you elect to request pre-approval from a Lender (as defined below) in connection with your contact with a real estate agent, you authorize Zillow Group to provide your name and contact information and other identifying information you provide to the participating Lender. You acknowledge that, by submitting your contact request or other request form on the Services or by electing to request pre-approval, you may receive telemarketing calls from or on behalf of the real estate agent or Lender at the telephone number(s) you provide.
> The Services may provide phone numbers that can connect you with Zillow Group, its service providers, or other third parties, such as real estate agents and Lenders. Some of the numbers listed may be routed through a third party service ("Calling Service"). Calls through the Calling Service may be recorded or monitored for quality assurance and customer service purposes. In the event that you make a call to Zillow Group or through a Calling Service, you consent to such recording and monitoring. Zillow Group will treat recorded calls in accordance with its Privacy Policy.

2. For help, speak to a TRUSTWORTHY, EXPERIENCED Loan Officer (SEE Key #4). Some lenders (and we can refer you to them) offer to give you what is called an AVM (automated appraisal model) report to help get a more accurate range of what the actual appraisal will come in at. These reports typically only cost $10-$15 and might be absorbed by the lender you speak to.

Most AVMs calculate a property's value at a specific point in time by analyzing values of comparable properties. Some also take into account previous surveyor valuations, historical house price movements and user inputs (e.g. number of bedrooms, property improvements, etc.). Appraisers, investment professionals and lending institutions use AVM technology in their analysis of residential property. An AVM can be obtained in a matter of seconds from a lender that is willing to provide one. (We can refer you to a lender that does.)

3. Speak to a trusted realtor if you know one. A realtor can access the MLS (Multiple Listing Service) to see what properties similar to yours may have sold in recent months. Since these "comps" (comparable sales) are what the appraiser will also be looking at to determine your market value, they can be a good indicator for you before spending significant time and money on the application process.

It is important to understand that the above research options can give you a fair idea as to your current value. Even so, when you move forward with a mortgage application, the *actual appraisal* may be higher or lower than you expect. Appraisals are not an exact science. So when it comes time to get one, try to use the occasion to do some cleaning and put your home in its "best light."

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Key #4. How do I find an Ethical, Honest, Experienced, Customer-Oriented Lender I CAN TRUST?

I have been in the mortgage industry since 1989. I've been pro-consumer and education-focused on a national level for over twenty years. During this time, it has been my privilege to work with some amazing teams and lenders who put SERVICE *before* Sales.

There are many, MANY wonderful loan officers and lenders out there. Sadly, there are also a lot of very poor ones and many mediocre ones. I have found that the vast majority focus on one thing as their priority - making a sale.

I don't know anyone who wants to be "sold to."

So if you are going to move forward, you want to find a loan officer and lender who is Ethical, Experienced, known for excellent service, competitive, and who wants to EARN your business by "**Helping you - not Selling you**."

In today's world most people will search for that lender in one of three ways.

1. Search the internet
2. Respond to an ad (t.v., radio, internet, etc.)
3. Ask for a referral from someone they know or trust

There is no 'magic' solution to finding the right lender to work with. But there are some excellent "common sense" pieces of advice to help you avoid the mediocre and poor choices out there. Fortunately, since the mortgage collapse between 2008 - 2010, many industry wide changes and regulations have been added to help PROTECT the homeowner during the mortgage process.

Here are a few pieces of common sense advice (Regardless of how you choose to find a lender):

1. ***Be aware and wise when you give your information Online.***

   (Yes, that includes to us too - take a look at our privacy policy. We HATE SPAM, and do NOT sell your information to anyone. Ever.)

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Read the policy and language at the bottom of the webpage or “privacy information” or “terms of use.”

Many lender and mortgage related websites are in the business of SELLING your information to multiple companies as a ”lead.” (our company does NOT do that) I am not saying that speaking to multiple companies is a bad thing. But thinking that you are asking for help from ONE company online, and then being bombarded with phone calls and emails for weeks from many different companies who you did not specifically reach out to, can be confusing and overwhelming. (some examples are LendingTree, LowerMyBills, even Quicken Loans)

2. ***<u>“Automated Service” or “Personal Service?” What are you looking for?</u>***

There are BIG companies, medium companies and small companies. There are brokers, mortgage bankers, bank-owned mortgage companies, etc.. You can find good choices in any of the categories.

Large companies (like Quicken and Wells Fargo) tend to have large call centers. Sometimes those call centers are third party companies hired to “screen” your inquiry. Sometimes these companies use mobile based applications (i.e. Rocket Mortgage) to help automate the loan process. There is nothing wrong with choosing these options as long as that is what you are looking for.

Just like your favorite restaurants, your favorite dentist, doctor, or other professional LOOK FOR QUALITY SERVICE. **If you ever feel pressured, or feel like someone is trying to “sell” you on making a decision - MOVE ON. (in my opinion)**

In today’s world, you do not have to find a local company and face to face (unless you want to). However, it’s important to take a few moments to LOOK FOR ENDORSEMENTS or CUSTOMER’S COMMENTS about the people and company you’re looking at. If you don’t see those on their website, it doesn’t hurt to ask.

3. **<u>Mortgage rates change … daily (sometimes more!). And they are NOT the same for everyone (because each scenario can be different)</u>**

After nearly thirty years in the mortgage business I can tell you, without a doubt, the #1 question I hear from people, and the very first question they almost always ask is, “So, what are rates at today?”

The fact is that the question, and whatever the answer is, is NOT going to give you the benefit, or knowledge you are hoping for.

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Here's why:

A. **Your rate is affected by MANY THINGS**.
The rate that you could get today is affected by the type of loan, your credit score, the type of property, whether it is owner occupied, second home, investment, the loan amount, the LTV (loan to value), whether you are taking cash out, etc.

So just asking "what are today's rates" can only give you an indication, or perhaps a basic impression of the general market, not necessarily what YOU could get.

B. **Many lenders advertise artificially low rates to try and get people to call.**
Lenders KNOW that most people will act based on showing a low rate! So they "advertise" low rates.
BE CAREFUL! Read the fine print. Know that it is important to FIND A TRUSTWORTHY LENDER to help you.

C. **Mortgage rates CHANGE. Constantly.**
Mortgage rates are affected by many different factors. At the beginning of your process you can get an idea by looking at published "average rates" by respected sources such as Fannie Mae, Freddie Mac, or others. We show a daily average of national lenders on our website at arcloan.com/todays-mortgage-rates .

Most days they do not change by much, but occasionally they do. It is not uncommon for a 30 yr fixed mortgage rate (with the same amount of closing costs) to change by ⅛% to ¼% up or down each week.

D. **Until you actually "lock in" your rate, it is subject to change.**
(In fact, it can change after you lock if information you had on your application changes.)

In order to actually "lock in" (guarantee a rate and fees) a lender MUST have a complete application from you. If a lender verbally tells you they can guarantee a rate and fees then you better have a VERY trustworthy lender because A **VERBAL** GUARANTEE IS **NOT** A GUARANTEE!

Until a lender has your application, your credit report and all the needed information necessary for the type of loan you are looking for, they can not accurately price the loan for rate and costs.

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Key #5. What information do I need to have when I want to find out more details?

Okay.   So if you've gotten this far, you may have already found a great lender to work with on this process. Remember a "great lender" will be one that is focused on HELPING YOU not selling you.

That being said, here are the basic things you can be prepared to have ready when you decide to move forward.

> Keep in mind you DO NOT need to have all of this ready to begin the process and make an application with a lender. Consider this information to be a "heads up."

Basic Documentation:

- **1 month's pay stubs** (these should show your income for whatever pay period you use and your YTD income)

- **2 months checking** account statements (ALL PAGES)

- **2 months of savings** account statements or Investment accounts - While you are not using any assets for a cash out refinance, providing additional asset information to the lender can make qualifying easier. Also, depending on the program or amount you are taking out, you may have to show a certain level of "reserves" of assets.

- **2 years' tax returns & W2's (if appropriate) -** depending on how you get paid, whether you are "self employed" and other factors, you may need to provide additional documentation.

- **If you are looking at a VA mortgage**, you will need a copy of your **DD214** if you have been discharged. (A lender can help you get a copy if you don't have one.)

Thank You !

Your next step is to find a good company to help you look at the details and discuss what your options may be!

NOTE: A good lender should be able to complete a refinance in 4 - 5 weeks.

Thank you for taking some time to read this guide. I sincerely hope that it has helped you to better understand some key information in order to make the right choices if you decide to pursue a cash out refinance.

My goal is to simplify some basic tips and ideas in hopes of helping you navigate the process.

If you would like a No Cost, No Pressure, No Obligation evaluation of your particular options, we are happy to help.

Simply send me an email directly at jkelly@heroescomefirst.com. We can introduce you to a great lender!

Joe Kelly
President - ArcLoan, YouCanRefi & Heroes Come First