Title:
Cash-out refinance: Turning lemons into lemonade

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Summary:
The oft given, rarely followed adage, "Turn Lemons into Lemonade" seems out of place in the world of refinance. But in fact, it is quite appropriate when considering entering into a Cash Out refinance loan.

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Article Body:
The oft given, rarely followed adage, "Turn Lemons into Lemonade" seems out of place in the world of refinance. But in fact, it is quite appropriate when considering entering into a Cash Out refinance loan. A Cash Out Refinance loan is simply a loan typically on the equity in a home, which is for greater than the amount actually owed on the home. The difference between the actual amount owed and the amount of the new loan, is returned to the buyer in the form of a "cash out". For example, lets imagine a couple has spent the last 10 years making monthly payments on their $100,000 home loan. By now they have paid $50,000 on their mortgage and owe another $50,000 when the house's title shifts to them and the house officially becomes theirs. At that 10 year mark, however, something happens. Someone gets sick and suddenly the couple needs to come up with $20,000 to pay the medical bills. So, they look to Cash Out Refinancing.

Cash Out Refinace: The Negatives
As you can likely imagine, those who avail themselves of cash-out refinancing are usually financial trouble. Because this trait is pretty common among individuals who seek out a Cash Out Refinance, there are higher default rates associated with those that take out the loans. This higher default rate allows banks to charge higher finance and interest rates on these loans. So, under the above example, what would typically happen, is that the Cash Out Refinance Lender would pay off the old loan of $50,000 and write up a new loan for somewhere in the vicinity of $80,000. They would then write a check to the couple for $20,000, allowing them to pay off the medical bills. Meanwhile, they would pocket $10,000 for conducting the transaction. The lending agency will then set the couple up with a variable interest rate which on average is significantly higher than the rate they had under their original mortgage.

Ultimately, the couple will end up paying an extra $35,000 to $45,000 over the life of the loan for the opportunity to cash out $20,000 of their own money. As should be clear by now, this is not usually a good deal for the borrower.

Cash Out Refinance: The Positives

But the reality is, incidents occur in which families need a lot of money in a very short period of time. Cash Out Refinancing is one way to get that money. If you find yourself in such a situation, you should know that there are a few steps you can take to minimize the damage. The first is that you must look at the total amount being refinanced. If, like the couple above, you owe $50,000, and you are getting $20,000 in cash out, any refinancing above $70,000 (50,000 + 20,000) is money that the lender is sticking in his pocket. Seek out multiple bids to find the lowest number. But keep in mind that you will have to go over the contract with a fine toothed comb to find this number as lenders typically try to hide and/or muddle it inside the contract. The next, and potentially most important step, is to seek out a similarly formatted interest rate.

The Refinancers Pitch

What refinancing companies often try to do is entice you by telling you that your monthly payment will actually go down after the Cash Out Refinancing. This is always too good to be true. What lenders do, is backload your payments, so that for the first year or so your payments may actually be lower. But look at years 5 - 10 of your loan and you will find that you are paying much more than you anticipated. They do this knowing full well that you will not be able to make the big payments later on down the mortgage, and that you will be left with just one option, return to them and refinance again. Instead what you want is to opt for a flat fixed rate mortgage. If you owed another 15 years at 8% fixed flat interest before the Cash Out, leaving with 20 years with 8% fixed flat isn't bad. The key to remember is that in Cash Out Refinancing, you are not getting the Cash Out for nothing. You are losing equity in your home, and you will have to pay for that. The key to making Lemonade is being aware of how you are paying for it, and making the repayment accountable and sustainable.