

# REFINANCE/ADDITIONAL LOAN Q&A POLICIES AND PROCEDURES

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## **HOW ARE REFINANCE/HOME EQUITY LOANS DIFFERENT?**

### **RATE-AND-TERM REFINANCE**

Borrower is essentially replacing the existing mortgage with a new one that has a different interest rate or loan term but not withdrawing any cash from the home's equity. The primary goals are typically to secure a lower interest rate and/or change the loan term (either shorten or lengthen it).

### **ACCESS HOME EQUITY OPTIONS**

- **HOME EQUITY LOAN (SECOND MORTGAGE)**

This is a lump-sum loan where a fixed amount of money is received based on the borrower's equity in the home. The loan is repaid over a fixed term with equal monthly payments. This is a good option if a specific amount for a one-time expense or project, such as a major renovation, is needed.

- **HOME EQUITY LINE OF CREDIT (HELOC)**

This is a revolving line of credit that functions more like a credit card, allowing the borrower to borrow and repay funds as needed within a set time frame. Approval is given for a certain spending limit and money can be withdrawn as needed, typically using checks or a credit card linked to the line of credit. Interest is only paid on the amount borrowed, not the entire approved limit. This is a good option for ongoing projects or unexpected expenses where flexibility in accessing funds is needed.

- **CASH-OUT REFINANCE**

This involves replacing the current mortgage with a new one for a larger amount than is currently owed, and the difference is taken out as cash to the borrower. This raises the overall amount owed to the lender by the amount of the cash-out. There is one monthly mortgage payment instead of separate payments for the primary mortgage and a home equity loan.

## **WHAT TYPE OF MORTGAGE LOAN PRODUCT IS PERMISSABLE WITH A REFINANCE ON A COCLT HOME (RATE-AND-TERM OR CASH-OUT)?**

When the loan is being refinanced, a leasehold interest loan is the only type of loan permitted by the Lease. This is the loan product used with the original purchase of the home.

Due to the homeowner leasing the property that the COCLT owns, the homeowner only has a leasehold interest in the property. Instead of using the property itself as collateral, the homeowner can use their leasehold interest as collateral for a loan. The leasehold interest is recorded with the Franklin County Recorder's Office in the Memorandum of Lease. As such, the COCLT will need to provide permission to the lender in writing for the loan to be refinanced.

### **ARE THERE APPROVED LENDERS?**

As with the original mortgage, only lenders approved by the COCLT will be permitted for a refinance or when an additional loan is taken out.

### **WHY DOES THE COCLT APPROVE A REFINANCE OR ADDITIONAL LOAN (e.g., HELOC or home equity loan)?**

Article 8 Refinancing of the Lease states when a loan is secured by a mortgage on a home tied to a lease with the COCLT or a homeowner's interest in the leased land, the COCLT must give approval.

Due to subsidies provided by the COCLT (either for the construction of a home, provided to the homebuyer at closing, or both) and the 25% Shared Appreciation Factor, the available equity is not the homeowner's alone. Therefore, a calculation has to be completed to determine how much of the equity is available to the homeowner.

### **WHY IS THE TOTAL MORTGAGE DEBT CAPPED AT 80% OF THE PURCHASE OPTION PRICE?**

Generally, when a home is first purchased, lenders require a 20% down payment or that private mortgage insurance be purchased until 20% equity is reached. Due to the equity provided by the COCLT at the time of purchase, COCLT homebuyers meet this lender requirement without accumulating 20% equity on their own. The refinance policy that a homeowner's loan does not exceed 80% of the Purchase Option Price ensures a homeowner has accumulated 20% equity in their home before taking out additional credit and increasing risk.

The refinance policy provides protection for the homeowner (without risking the home itself) from potential downturns in the market. Refinancing costs homeowners money, and lenders are often incentivized to promote them because of the fees they generate. A lower interest rate does not necessarily save money; it depends on the total terms of the loan. Refinancing involves costs like points, application fee, title search, appraisal fees, and other closing costs. These costs need to be factored in when deciding if refinancing is worthwhile. It can take several years to break even and actually begin to see the savings of a refinanced loan.

## **CAN AN EXCEPTION BE MADE WHEN A REFINANCE LOAN CAUSES THE MORTGAGE DEBT TO EXCEED 80% OF THE PURCHASE PRICE?**

The COCLT may, at its discretion, approve a Rate-and-Term Refinance loan that does not exceed the current loan payoff amount.

## **CAN CLOSING COSTS BE ROLLED INTO THE NEW LOAN?**

Costs associated with the closing (e.g., home inspections and appraisals) can only be included in the loan if it does not result in the total loan amount exceeding 80% of the purchase price.

## **WHAT IS THE INITIAL STEP TO TAKE BEFORE CONTACTING A LENDER?**

The very first step when considering a refinance is to contact the COCLT and schedule a time to review the Refinance Purchase Option Price Calculation together. The COCLT will estimate the Current Appraised Value of the home using comparable sales in the area to determine Market Value Appreciation, and in turn, the homeowner's Shared Appreciation amount. The Purchase Price from Article 10 of the lease is used to calculate the Formula Price (the Purchase Option Price if selling the home).

**REFINANCE** - If the refinanced loan amount is higher than the 80% of the Purchase Option Price calculated on the document, the requested refinance loan will not be approved unless an exception is made for a Rate-and-Term Refinance loan.

**ADDITIONAL LOAN** - If any current mortgage balance plus the requested additional loan combine to an amount above the 80% of the Purchase Option Price calculated on the document, the requested additional loan will not be approved.

## **IF THE LOAN IS IN COMPLIANCE WITH THE LEASE, WHAT HAPPENS NEXT?**

After the COCLT has determined the loan does not violate the lease, the Request for Refinance/Additional Loan can be submitted to the COCLT for the review of the loan details (e.g., loan amount, type of loan, current loan payoff, interest rate, expected closing costs) and a Third Party Authorization form must be completed to allow the COCLT to discuss the proposed loan with the lender.

Because some lenders have loan application and appraisals fees, it is recommended this step be taken prior to moving forward with the loan so as not to incur expenses should the loan not be approved by the COCLT. Lenders should be able to provide the necessary information for the COCLT review without starting the loan application process.

If the COCLT provides permission for the loan, the COCLT will provide written notification to the homeowner that the mortgage is defined as a "Permitted Mortgage" and the holder of the

mortgage is defined as a "Permitted Mortgagee". This letter can be provided to the lender to show the COCLT has provided permission for the loan. The issued loan cannot exceed the amount in the written notification to be in compliance with the lease.

## **ARE THERE THINGS TO CONSIDER WHEN REFINANCING OR TAKING OUT AN ADDITIONAL LOAN?**

- Closing Costs

Closing costs (e.g., appraisal fees, title insurance, origination fees) can range from 2% to 6% of the loan amount. Factor in these costs to determine if refinancing is worthwhile, especially if the plan to stay in the home is not long enough to recoup them through lower payments. Be aware that "no-closing-cost" refinances usually involve higher interest rates or the costs being rolled into the loan amount, which could cost more in the long run.

- Potential for Higher Long-Term Costs

While refinancing to a longer term can reduce monthly payments, it is likely to pay significantly more in interest over time. If current interest rates are higher than the current rate, refinancing might not be beneficial, as it could lead to higher overall costs.

- Impact on Credit Score

Applying for a new loan can slightly lower a credit score due to a hard inquiry. Closing an old mortgage and opening a new one can also temporarily affect a credit score.

- Reduced Home Equity

Cash-out refinancing reduces the equity in the home. Taking out too much cash can be risky if home values drop, potentially leading to negative equity.

- Do Not Refinance for the Wrong Reasons:

Avoid refinancing solely for minor short-term gains without considering long-term effects. Do not refinance to consolidate debt if it puts the home at risk.

- Make an informed decision, by:

- Comparing offers from multiple lenders.
- Considering all fees, not just the interest rate.
- Calculating the break-even point by determining how long it takes for savings to cover closing costs.
- Checking the credit score because a good score can help obtain a better rate.
- Reading the documents carefully to ensure understanding of all terms before signing.