A Question Between Loan Modification and Refinancing

Have you ever faced the question of whether to refinance or to seek a loan modification? If you've been in the business for at least the past few years, you have undoubtedly faced this question. The question isn't as simple to answer for homeowners as it once was, and the information they receive about it complicates the issue further.

There is a growing misconception among homeowners that loan modification is a concept that was developed by the Obama Administration in an effort to combat the current housing and mortgage crisis. Of course, we know that loan modifications existed long before this. However, they were characterized as requiring less paperwork and being less expensive than refinancing but the problem was that trying to convince a lender to modify the terms of a loan was often a losing, uphill battle.

This often led to homeowners turning to refinancing in order to adjust their rates, points, or other terms of the loan agreement. In recent years, however, the tables have turned thanks, in part, to the federal government's Home Affordable Modification Plan (HAMP). Lenders have been given incredible incentives to modify home loans with such as interest rates to borrowers being next to nothing.

While most of the current loan modifications that are taking place focus on interest rates, some lenders have been known to reduce the principal amount on the loan as well. Of course, as appealing as this plan was, and with a boasted rate of between three and four million homeowners said to eventually benefit from it, there have only been 66,000 borrowers who have managed to successfully modify their home loan.

This has led to a tug-of-war, so to speak between the government and lenders with regard to the 'blame game.' The government chastises lenders for not modifying enough home loans and the lenders in turn blame the borrowers for not supplying the required information and paperwork and subsequently, almost inevitable, the borrowers claim that the documentation required is enough to sink the Titanic and far too overwhelming to decipher without a degree from MIT.

In response to this series of finger pointing, the government has now attempted to streamline the paperwork requirements for loan modification. With this new streamlined approach, borrowers need only submit a formal request form for a loan modification, proof of income, and authorization for the lender to check their tax history with the IRS. This new approach may open the doorway to successful loan modification to more homeowners, but only time will be the true measure for this.

The hurdles that have been prevalent through these past few years, coupled with the long delays (sometimes many months of delays) to await being accepted or rejected, would seem to deter some homeowners from the option of loan modification. However, it still holds strong appeal for millions of struggling homeowners who are fighting to survive a difficult economy and keep their dream homes from falling into arrears and foreclosure.

On the opposite side of the fence, refinancing has become exceedingly difficult to achieve due to a tightening of lending standards. Many homeowners who were able to achieve home loans in the past, even if their credit score is now the same, might no longer be eligible to receive a new loan. A new government program is also designed to parallel that of the loan modification program, which will also be aimed at helping underwater loans up to 125% LTV be able to refinance.

The question is helping clients make the right decision for their current situation. With interest rates still hovering at record lows, the comparable cost savings between refinancing and loan modification are almost the same. The factors, then, would have to deal on a case-by-case basis with each client and their financial situation. If a client is in serious risk of defaulting, then a load modification is probably the best avenue in the current climate. For all other homeowners, refinancing is still the best option.

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David Reinholtz is a professional Mortgage expert in Real Estate Industry. David is also a sales and marketing expert and trains professionals in every career field. David has personally trained tens of thousands of loan officers, mortgage brokers, real estate agents and individuals through The Close More University Seminar Series, LoanOfficerSchool.com Classes, Correspondence and On Line Learning, and countless private engagements and training events throughout the country.