The Refinance Guide

When refinancing makes sense, how cash-out works, and which loan to refinance into.



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What is it?

Refinancing means replacing your current mortgage with a new one. A rate-and-term refinance swaps your loan for a better one, with a lower rate, a shorter term or no more mortgage insurance. A cash-out refinance takes out a bigger loan than you owe and gives you the difference in cash.

You can refinance into a conventional loan, an FHA loan (insured by the Federal Housing Administration), or a DSCR (debt service coverage ratio) loan if the property is a rental. If you already have an FHA loan or a VA loan (backed by the Department of Veterans Affairs), there are streamline options that make lowering your rate easier.

Usually a good fit if
The savings are big enough to cover the costs, you want to get rid of FHA mortgage insurance, or you need cash for renovations, debt payoff or another property.

Maybe not the best fit if
You already have a great rate and only need some cash, in which case a home equity line of credit (HELOC) may be the better tool. It's also usually not worth it if you're planning to sell soon.

What documents do I need?

- Your current mortgage statement
- W-2s from the last 2 years
- Your homeowners insurance policy
- Pay stubs from the last 30 days
- Bank statements from the last 2 months
- For a rental with DSCR: the current lease

Let's run the numbers

The first thing I look at is the break-even point. Divide your closing costs by how much you save each month, and that tells you how long it takes for the refinance to pay for itself.

CLOSING COSTS		MONTHLY SAVINGS		BREAK-EVEN
$6,000	÷	$300	=	20 months

If you'll keep the loan longer than that, the refinance pays for itself. Example for illustration.

How much cash you can take out

On most home loans you can borrow up to 80% of your home's value. Here's what that looks like on a $500,000 home with $250,000 left on the mortgage.

Cash-out on a $500,000 home — Up to 80% of the value



$250,000
What you owe

$150,000
Cash you could take out

$100,000
The 20% that stays

Your debt-to-income ratio

Your DTI limit depends on the loan you refinance into. Conventional loans can go up to 50% with an automated approval, sometimes less on a cash-out. FHA's standard is 43%, and DSCR loans don't use your personal DTI at all.

Things most homeowners don't know

1. **You don't have to refinance with your current lender.** You can go with anyone, which is a big reason to have your loan shopped.
2. **Cash-out money isn't taxed as income.** It's a loan, not a sale, so it's not a taxable event. The interest can also be tax-deductible, for example when the money goes into improving your home or into a rental. Your CPA (certified public accountant) can tell you how it works for your situation.
3. **Cash-out usually needs some time in the home first.** Most programs want at least 6 months of ownership before you can take cash out.

Lesser-known strategies

1. **FHA to conventional.** Once you have 20% equity, refinancing an FHA loan into a conventional loan removes FHA mortgage insurance. On a $400,000 loan, that's about $180 a month.

2. **Pay off high-interest debt.** You can refinance to pull equity out of your property and pay off higher-interest debt, like credit cards.

A real example

An investor I worked with bought a house with cash and fixed it up. Selling would have meant a big tax bill, so he did a cash-out refinance instead and kept it as a rental. We got back about 90% of the money he had put into the house, and it now makes him about $500 a month after all expenses. We closed in 16 days.

30-second recap

- Rate-and-term gets you a better loan, cash-out gets you cash
- Break-even = closing costs ÷ monthly savings
- Most home loans let you cash out up to 80% of the value
- Going from FHA to conventional can remove mortgage insurance
- Cash-out money isn't taxed as income
- If your rate is already low, look at a HELOC instead



Want to know if a refinance makes sense for you?

A quote takes about 2 minutes and doesn't touch your credit. Once I see your situation, I'll walk you through your options and what each one would actually cost you.

Get a Quote →

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