

JUMBO JUNGLE

To Reduce Payments, Recast Your Mortgage

With an infusion of cash, some banks will re-amortize a mortgage to lower the monthly bill



PHOTO: TIM FOLEY

By Katy McLaughlin

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When Hollywood directors recast a part in a movie, they tend to be discreet about it. Mortgage lenders are quiet about recasting, too.

A recast refers to a borrower who makes an additional principal payment and then asks the bank to re-amortize the loan at the existing interest rate. The result is that while the loan term remains the same, monthly payments are reduced. Wells Fargo, Bank of America, JPMorgan Chase and Quicken Loans offer mortgage recasts on some, though not all, of their loans.

Recasts aren't well known for a few reasons. Record-low interest rates in recent years made refinancing the go-to approach for borrowers looking to save on monthly payments. Also,

lenders make little or no money when recasting—Chase and Wells Fargo charge nothing; Bank of America levies a \$250 fee at most.

With interest rates now trending higher, more customers are interested in recasts, said Wells Fargo spokesman Tom Goyda. The Tax Cuts and Jobs Act, enacted in December 2017 will result in over 28 million more taxpayers taking the standard deduction as opposed to itemizing deductions, according to estimates by the Joint Committee on Taxation, a congressional committee. That means fewer households are making use of the mortgage-interest deduction to lower their tax bill come April, said Laila Pence, president of Newport Beach, Calif.-based Pence Wealth Management and Pence Real Estate.

Borrowers must call or write their lender to ask if their mortgage is eligible for recasting. The homeowner will usually be asked to sign an agreement, but unlike mortgage refinancing, there's no credit check and the paperwork and fees are nominal. It usually takes only a month or two for the new payments to take hold.

In some ways, recasting is the flip-side of the better-known strategy of making additional principal payments, which reduces the length of the loan term but keeps monthly payments the same. But the two maneuvers can co-exist: People who either make a single lump payment or have made a number of extra payments over the years—such as borrowers who make bi-weekly rather than monthly mortgage payments—can ask their lenders later on to recast the mortgage.

Making extra or excess mortgage payments will shorten the term of the loan, thus saving a homeowner thousands of dollars in interest. Paying down principal plus recasting also saves on interest over the life of the loan, but not as much as simple prepayment, because the loan term remains the same.

Lenders have various minimum prepayment amounts, which they call “curtailments,” for recasting: Wells Fargo’s is generally \$20,000 “but will consider smaller amounts on a case-by-case basis,” said Mr. Goyda. Bank of America requires a \$1,000 to \$6,000 pre-payment, depending on the loan. Chase has no minimum.

Ms. Pence, the wealth manager, generally tries to talk clients with low mortgage rates out of any kind of pre-payment because “there are so many alternatives for what to do with that money,” she said. But clients who are severely risk adverse and tempted to simply hang onto cash can benefit from a recast that gives them an immediate savings—especially if they are taking the standard deduction, she said.

A few things to consider about mortgage recasting:

- **Deduction decisions.** Under the 2017 tax reform, the maximum amount of mortgage interest that can be deducted was reduced from interest on principal of up to \$1 million to \$750,000. But the law grandfathered in the \$1 million limit for loans that predate the reforms, according to Nicole Kaeding, director of federal projects at the Tax Foundation, a Washington-based think tank. Homeowners who currently write off mortgage interest on loans above \$750,000 should carefully run numbers before relinquishing a no-longer-available deduction, advised Ms. Pence.
- **Availability varies.** Banks handle recast requests on a case-by-case basis, and not all loans are eligible because of restrictions imposed by various programs or investors. Quicken Loans offers recasts for many conforming loans. Many of the jumbo loans it originates, which have amounts that start at \$484,851 in most parts of the country and go up to \$726,525 in high-price areas, are handled by servicers, which may be able to offer a recast.
- **Alternative investments.** Mortgage holders who currently have low, fixed-rate loans should carefully consider whether other conservative investments—such as high-quality bonds—might result in higher returns that would exceed any savings in monthly payments.

CALCULATOR

To see if recasting is right for you, try an online calculator. Users input their mortgage balance, current payment and how much additional equity they want to add. The calculator determines the new monthly payment. The calculator then compares how many months or years would be shaved off the mortgage term if the prepayment is made without a recast.

For example, 15 years into a \$1 million mortgage at roughly 4%, a \$100,000 prepayment will lower the monthly note by roughly \$750 a month. Alternatively, the same additional equity added without a recast would shave about three years off of the life of a loan.

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