ROI Refinancing Transcript

as heard on Replace Your Income Podcast with Kevin and Steve

Have you been wondering if you could save money with a mortgage refinance or maybe even increase cash flow on an investment property in the current interest rate environment? You may have recently heard that the Fed has cut interest rates to historical lows, and that as a result mortgage interest rates have fallen too. So should a refinance be in your near future? Not so fast… let's understand at the facts. The first thing to consider is how much it's going to cost you if you did refinance, right?… Most refinance loans may cost thousands of dollars that you are either paying out of pocket, or that you may be rolling in to your new loan, AND a refinance means you are likely resetting and lengthening your loan term. Let's be honest…it all boils down to the numbers. Just because you can qualify for a lower interest rate doesn't mean you should refinance… does it? Again, Not so fast. Conventional wisdom indicates that a refinance should be judged on interest rate and loan cost, and the loan term. But what if you had a new way, or a different way, and frankly a better more investor minded lens through which you could evaluate your refinance prospects?

You're likely familiar with the terms cash out refinance, or rate and term refinance, but what about the term ROI refinance, or Return on your Investment Refinance? Most of us look at a refinance as a transaction, or a cost, but how often do you truly look at a refinance from the perspective of it as an investment in your financial life that may be able to immediately contribute positively to your personal, or real estate business, bottom line?

Let's take a common example for someone living here in Utah. Let's say you upgraded your primary residence a few years ago… sold one home and used your proceeds as a down payment on a newer larger home for your family, and you purchased a home for around $350,000. Let's say you had an initial loan balance of around $292,000 at a 5% interest rate giving you a monthly principle, interest, tax, and insurance payment of $1853 a month. Over the last few years your property has increased in value to over $400,000 and you've paid down about $12,000 in principle bringing your loan balance today to around $280,000 on a home worth more than $400,000. Let's say you find out you could refinance your home today for around 3.75%. That's a great interest rate, but you find out it will cost you more than $10,000 to do the refinance lengthening your loan term, and taking your loan balance back up to around $290,000. At first glance you may think, "wait a second, isn't this erasing all the progress I've made paying down principle for the last few years?" But then you find out, your new payment will only be $1626 instead of the $1853.. So, you're payment goes down by $227 but it's going to cost you $10,000 (plus interest) in order to get that lower payment.

Does it make sense to do the refinance? Using a traditional or conventional way of thinking that would mean it would take you nearly 4 more years to be at a break even point to make up for the cost of doing the loan. If you're not in desperate need of payment savings, you may decide to pass. But remember that is using traditional or conventional thinking. How would you view it through the lens of ROI Refinancing.

Let me show you how this works in less than 90 seconds…

It's pretty simple, yet feels revolutionary for traditional financial thinking. Instead of the refinance COSTING $10,000 what if you viewed it not as a COST but as an INVESTMENT. If you "invested" $10,000 in a refinance (or in this case invested $10,000 in an increased loan balance) that lowered your payment by $227 a month or $2724 a year, you would be earning a 27% return. In fact, YOU just gamed the system, and beat your bank at their own game by earning a 27% return on money they are lending you at 3.75%. Let me say it another way, with this refinance you would be putting $227 extra dollars in your pocket every month, for an investment (in increased loan balance only) of $10,000. If you use your new annual gain of $2724 and divide against your investment of $10,000, your return on investment is 27%. That's a TWENTY SEVEN PERCENT RETURN on investment!

Look if I told you you could borrow someone else's money at 3.75% and invest it in a vehicle that would yield 27%, that is arbitrage at it's finest, and you would have all your friends and family coming to you for shrewd financial advice… heck you might finally feel like you beat the house (aka The bank) at their own game, instead of them always seeming to beat you.

Let's take a look at another example of a typical DFY Client investment purchase, and see if our new perspective of ROI Refinancing works as well on an investment property refinance as it works on a primary residence.

Let's say you bought an out of state investment property through DFY for around $180,000. After your 20% down payment, TEAMS Fees, closing costs etc, let's say you had an initial loan balance of $148,000 at a 5.5% interest rate, giving you a monthly principle, interest, tax, and insurance payment of $1124 a month. Over the last few years your property has increased in value to around $207,000 and you've paid down about $12,000 in principle, bringing your loan balance today to around $136,000 on a home worth more than $200,000. Let's say you find out you could refinance your investment property today for around 4.125%, more than a full percent lower than your original loan, but it will cost you $6,000 to do the refinance. Your payment goes from $1124 down to $972, saving around $150 a month but costing you $6000 to do.

With your new frame of reference, instead of thinking that it will take you more than 3 years to make up the cost of doing the refinance, in this scenario, if you "invested" $6000 in a refinance slash increased your loan balance by $6000, that lowered your payment by $152 a month or $1824 a year, using your new ROI refinance reframing you would be receiving a 30% return on the money the bank is lending you at the new interest rate of 4.125%. With this refinance you would be lowering your expenses an extra $152 dollars a month, which will both increase your cash flow and decrease your expenses, all for an investment (in increased loan balance only) of $6,000. If you use your new annual gain of $1824 and divide it against your investment of $6,000 in the refinance, your return on investment is 30%.

Put simply, when we look at the actual numbers, and put the numbers in the context of investment and return on investment instead of cost and term lengthening, your ability to utilize arbitrage, and beat the bank at their own game may give you the upper hand, and may allow you to make more financial headway sooner than you otherwise could… assuming the interest rate and lower payments are enough to put the numbers on your side.

So to circle back to our original question… is it time for you to refinance given the current situation in the market? The answer will still be determined by the numbers, but now you have a new, more efficient, more accurate, more investor friendly way to evaluate your numbers.

Visit, strategiclending.net to learn more, and to have our mortgage, and ROI Refinancing experts take a look at your numbers, and run some calculations to see if a refinance may be right for you. All they need is a current mortgage statement, and a little bit of info from you to be able to give you some definitive options. It only takes a few minutes but may be worth double digit returns on your investment. Visit strategiclending.net to learn more, or contact your DFY representative, to get the research started for you.