5 questions doctors should ask on mortgage refi options amid COVID-19

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Ninety-seven percent of physician practices in the United States have been negatively affected financially by COVID-19. As doctors and their practice teams deal with a drop in revenue, many are facing uncertain realities about how much money they can save, where new streams of income will come from, and how long their practice can last.

Refinancing a home mortgage is a relatively simple way to save money, and in certain situations, it can also serve as a new source of cash flow.

“Interest rates are at an all-time low across the board,” said Abe Kahan, head of mortgage for Laurel Road, an online lending platform and AMA Member Benefits PLUS preferred provider. “Everybody should be considering refinancing their mortgage.”

Kahan said he’s heard people say they do not want to take the time to fill out the necessary paperwork in order to refinance, but that is a decision he calls “insane.” He acknowledged that much of the public may not understand how a small percentage-point decrease in interest rate can make a big impact in the long term.

Even highly sophisticated, educated borrowers such as physicians may not take a moment to appreciate the impact.

Each case is unique, Kahan added, but hypothetically, if a person saved $200 a month by refinancing their 30-year fixed-rate mortgage, they could save $2,400 over the course of a year and $72,000 for the full life of the loan.

Beyond explaining the benefit of lower interest rates, Kahan addressed some common questions physicians might have as they consider refinancing.

Will I be able to refinance my mortgage during COVID-19?

The short answer is that it depends on your situation. There are a lot of factors, as explained below, that go into whether refinancing makes sense or if you will qualify.

Will lower practice revenue hinder my refi application?

Mortgage lenders are required to verify a borrower's ability to pay off a loan, so if a doctor's practice doesn't have as much money coming in, that can be a problem. Again, though, it depends on each person's unique situation. If a physician owns their own practice, is self-employed and doesn't have many patients, it will be substantially harder to prove that the loan can be paid back.

However, if the physician received aid from the Coronavirus Aid, Relief and Economic Security (CARES) Act, an Economic Injury Disaster Loan from the U.S. Small Business Administration, or even has a spouse or co-borrower whose income was not greatly impacted by COVID-19, then refinancing may not be as big of an issue.

Kahan suggested that physicians assess their situation by considering whether their decrease in income is likely going to be a short-term or long-term issue. For example, if your income is highly dependent on revenue from nonurgent procedures, then you may face greater challenges in your attempt to refinance.

"Lenders are looking for a consistent stream of income," Kahan said. "As long as it's a short-term problem, there are things physicians and practices can do, even at the local bank level."

Learn how the AMA is helping physician practices make tough financial decisions.

What additional obstacles might I face when refinancing my mortgage?

The biggest obstacle some physicians may face in terms of refinancing is if their mortgage is in forbearance. Forbearance allows you to temporarily pause or reduce your monthly mortgagepayment, and the CARES Act allows residential owners with government-backed mortgages torequest forbearance for up to 180 days. The CARES Act also states that owners have the right torequest an extension of up to an additional 180 days. No fees will be added to the account, but theloan's regular interest will still accrue.

The Mortgage Bankers Association reported recently that about 4.1 million home owners are now in forbearance.

If your mortgage is in forbearance, you are not eligible to refinance, Kahan said. However, the Federal Housing Finance Agency (FHFA) announced recently that forbearance guidelines are temporarily being loosened.

According to the FHFA, "Borrowers are eligible to refinance or buy a new home three months after their forbearance ends and they have made three consecutive payments under their repayment plan, or payment deferral option or loan modification." Previous regulations stated that homeowners wait a full year after being out of forbearance before refinancing.

Can I take money out of my mortgage by refinancing?

Yes, you can do a cash-out refinance to access some of the equity in your home. To do this, you would refinance your current mortgage for more than what you owe. "It's one of the cheapest ways you can borrow money at this time," Kahan said.

For example, if you owe $300,000 on a $600,000 home, you could theoretically do a cash-out refinance for $400,000. The monthly payment on your principle and interest will go up, but not exorbitantly, since that added money would be incrementally repaid over the course of the loan.

Should I also consider refinancing my student loans?

Like mortgage rates, student loan rates are also at historic lows, and Kahan said it's worth considering student-loan refinancing, particularly if you already have private loans. Just as with mortgages, dropping your interest rate by a couple of percentage points could lead to savings of hundreds or even thousands of dollars over the life of the loan.[1]

Those considering refinancing should also note that, in general, federal loans offer better forbearance options—outside of the CARES Act—than private loans. Taking your loans private would mean a borrower no longer had those options available, or other federal benefits.

AMA members who refinance their student loans with Laurel Road will receive an additional 0.25% rate discount. Learn more about refinancing your medical student loans with Laurel Road. The 0.25% American Medical Association (AMA) member interest rate discount is offered for applications from active AMA members. The rate discount will end if AMA notifies Laurel Road that borrower is no longer in good standing. The offer cannot be combined with other offers, except any discount for making automatic payments. The discount will not reduce the monthly payment; instead, the discount is applied to the principal to help pay the loan down faster.

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1 Savings vary based on rate and term of your existing and refinanced loans. Refinancing to a longer term may lower your monthly payments, but may also increase the total interest paid over the life of the loan. Refinancing to a shorter term may increase your monthly payments, but may lower the total interest paid over the life of the loan. Review your loan documentation for total cost of your refinanced loan.