

# Refinancing rental property? Check out these tips for shopping around

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**Q:** I need some information regarding which way I should go about refinancing my rental property, in order to reduce my rate, as well as to be able to take out some cash. There is a line of credit, with a high interest rate, with a large bank. Is HARP, a better place to go? Is a credit union better? Is a local small bank better? There is no mortgage on the house, and the house has appreciated because of where it is located, a hot vacation rental market. Can I check several of these banks, credit unions and HARP within a month and not be hit on my credit score?

**A:** It seems that you should have a few options for taking cash out of your rental property, particularly if you don't have a mortgage or the mortgage balance is low and you haven't drawn down your equity line of credit. Let's start at the top and parse through the various opportunities for using your equity to get a loan.

First, lenders treat vacation and rental properties differently from an owner-occupied primary residence. That's because there is a perception that rental properties tend not to be maintained as well or be as stable as primary residences. An owner will tend to keep the property they live in every day in better shape than one that is maintained to a rental standard.

Of course, that may not be how you maintain your rental property, especially if it is in a hot neighborhood as you indicate in your email.

Mortgages that fall under the Home Affordable Refinance Program (HARP) are designed for properties

that are either underwater or have less than 20 percent in equity and would be difficult to refinance. Since you do not have a mortgage, and we're assuming you haven't drawn down any equity on the credit line, you wouldn't qualify for HARP.

Could you take out a new line of credit? Possibly. Some lenders will do home equity lines of credit (HELOCs) for investment or vacation properties. You might want to shop online but also talk to a local, reputable mortgage broker.

Some lenders will also do a cash-out refinance for an investment property, but don't expect to take out 80 percent of the equity. You might be able to borrow 50 percent of the equity you have in the property, or perhaps a little more.

As for shopping around, you can certainly do this without officially applying for a loan. If you know what your credit score is, just tell the lender, "Assume I have a 760 credit score" or whatever it is. If you don't know what your credit score is, you can go to AnnualCreditReport.com, and pay \$9 for a copy of your credit score from one of the three credit reporting agencies: Equifax, Experian or TransUnion. While the credit score a lender uses will differ a bit from the three you're offered, it's close enough to get you pretty far along in a conversation with a lender.

When you shop around you'll want to talk with a mortgage broker, a big national lender, a local or regional lender, a credit union and perhaps a company that only does online lending to get a good idea of what kind of loans are available. We've found that by shopping around with different types of lenders, you'll wind up

getting a understanding of the market for a loan like yours, and which lenders are interested in doing that sort of business. Not all lenders will want to finance or do a cash-out refinance for an investment property.

At this point of your loan search, you're looking for good information to guide you on how to proceed. Interest rates are only one part of the story. You also have to see what the closing costs will be of any loan product you contemplate. While you might want to lower your monthly payment or interest rate on your loan, you have to see how long you it will take to repay the loan to really assess whether the loan has the right interest rate, right costs, right term and fits your financial future.

Don't look for what seems to be the cheapest. You also want to learn about the products and make the right decision for your budget. Whatever lender you wind up with, you'll need to provide proof that you can afford to pay the mortgage, and may be asked to show proof of all assets. And even if you could afford the actual payments, a lender might tell you that you don't qualify for a loan of the size you need.

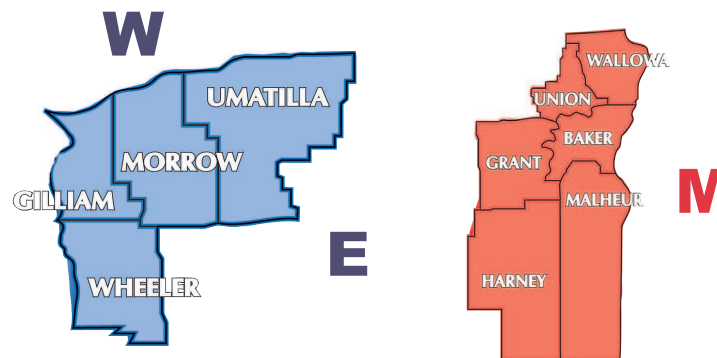
For example, if you are living on Social Security and the rent from your rental property, and you want to borrow \$200,000, lenders may tell you that you can't afford to make the loan payments each month, on top of the real estate taxes and insurance that they will require you take out (if you don't already have it).

Take your time. Work with quality lenders who take the time to explain things to you in a way that's understandable. And, if you find that you're being talked down to, be sure to vote with your feet.

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