

## MARKETWATCH

# This mortgage hack could save you thousands a year - and it's not a refinance



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Homeowners looking to leverage lower mortgage rates can ask their lenders for a 'rate modification,' financial experts say

Kashif Ahmed lowered his mortgage rate by 2 percentage points earlier this week - simply by asking.

Ahmed, a financial planner and president of the wealth-management firm American Private Wealth, went to his credit union in the Boston area and said, "This is the rate I want to pay," he told MarketWatch. He had enough cash to pay off the entire loan but wanted to claim the mortgage-interest tax deduction, and told his credit union he was willing to switch lenders.

The result: "They were willing to give me a rate that was not published, which was lower," bringing his rate down from 6.75% to 4.75% through what some lenders call a "rate modification." He paid no fees for the change, and will save about \$600 on his monthly payment.

With mortgage rates dropping to their lowest level since 2022 as the Federal Reserve begins a series of interest-rate cuts, homeowners with higher-rate mortgages are finally getting the chance to trim their monthly payments with a cheaper home loan. That has sparked a surge of interest in mortgage refinances.

But there's another method for getting a lower mortgage rate. Some lenders - especially smaller banks and credit unions - are offering rate modifications as

an alternative to conventional refinances that involve lower fees and less paperwork.

See also: Mortgage rates went up right after the Fed cut interest rates. Here's why.

A rate modification, put simply, is an adjustment of the interest rate on a loan without changing the other terms, such as the time left on the mortgage. For borrowers, a rate modification is a way to reduce monthly payments and save money over the life of the mortgage. For lenders, it provides a tool to help retain creditworthy customers who will be shopping around for better deals at competing banks as borrowing money gets cheaper.

Unlike a mortgage refinance, a rate modification is not a new loan with a new term. It also typically involves lower fees than a refinance.

Lenders also offer something called a loan modification, which alters the loan to help distressed homeowners. Rate modifications, on the other hand, are aimed at retaining customers who are not necessarily facing financial hardship.

While rate modifications were more common in the 1980s when banks held loans in their portfolios, most mortgages are now sold into the secondary market, precluding lenders from simply adjusting the rate without a refinance, said Ron Haynie, senior vice president of mortgage-finance policy at the Independent Community Bankers of America, a trade group. Still, some lenders today do offer rate modifications if possible.

"You should, at a minimum ... call your current lender and just ask them if they offer rate modifications," said Brian Preston, a financial planner and certified public accountant, on a recent episode of his "Money Guy" podcast. The process may be the easiest at credit unions, he said: "I know for a fact that they'd rather keep your business than just watching it walk out the door."

Ahmed agreed that smaller lenders and credit unions may be "more receptive" to offering rate modifications compared to big banks that have "millions and millions of borrowers."

MSU Federal Credit Union in Michigan charges a flat fee ranging from about \$1,000 to \$2,500 for a rate modification (which it recently renamed a

"streamline refinance") depending on the size of the loan, said Denya Macaluso, vice president of residential lending at the credit union. In comparison, closing costs on a mortgage refinance run from 2% to 6% of the loan value; the median cost in 2022 was \$6,000.

"We know that the borrower can go anywhere," Macaluso told MarketWatch. Based on what other lenders have told her, she said, she foresees other institutions offering similar programs as mortgage rates tick down. "The goal is, certainly, to keep their borrowers at their financial institution."

To get a lower rate through a rate modification, borrowers call their lender, which will check that their payments are up to date and that their income and overall financial state has not gotten worse since they first took out the mortgage, Macaluso said. At MSU Federal Credit Union, if the borrower qualifies for a lower rate, the representative will send them a link to a site showing the borrower their new options, and allow them to pay the fee for the modification online. The next month's payment will reflect the new rate and lower monthly payment.

At Star One Credit Union in California, borrowers submit an online form for a rate modification. To change the rate, Star One charges a fee that is 0.5% of the outstanding loan balance, ranging from a minimum of \$750 to a maximum of \$2,000, said Pilar Bucio, a call-center representative.

At both institutions, there is no limit to the number of times borrowers can adjust their rates if interest rates keep falling, though they should remain mindful of the impact of fees.

The process sounds easy - if your lender agrees to it - but homeowners should still consider options available from other lenders and carefully review the math. Failing to shop around for the best rate can be a costly mistake for borrowers. In a 2023 analysis by Freddie Mac (FMCC), home buyers who got four additional rate quotes from lenders saved \$1,200 annually.

Refinancing at another institution may save more money than a rate modification in the long run, even if the upfront costs are higher, Jacob Channel, senior economist at LendingTree (TREE), told MarketWatch.

MarketWatch reached out to United Wholesale Mortgage (UWMC), Rocket Mortgage (RKT) and Bank of America (BAC), the three largest mortgage

lenders in the U.S. While some are offering incentives for borrowers to take advantage of the "refi boom," none of them specifically offer "rate modification" programs.

"We believe the Fed's expected rate cuts are likely to make mortgages more affordable, encouraging more home buyers and allowing current homeowners to refinance at better rates," said Matt Vernon, Bank of America's head of consumer lending.

Alex Elezaj, chief strategy officer at United Wholesale Mortgage, the largest U.S. home-mortgage lender, said rate modifications "could be just a marketing thing" or another name for refinancing a mortgage and rolling the fees into the new payment amount. "You really want to make sure you're understanding the full scope of what it is," he said. "It's very beneficial to speak with a mortgage broker and really understand your current situation."

Borrowers should resist paying any fees at all for a rate modification, said Ahmed, the Boston-area financial planner. His reasoning: "You have to prep the documents. Why are you charging me a fee?" Always negotiate, he added: "I've never even gone to Best Buy and bought a TV at full price."

Even if the lender winds up refusing to waive fees for a rate modification, "you won't know if your lender is willing to budge on fees until you ask," LendingTree's Channel said. "What's more, they may not offer you the best possible deal until you ask." Still, "odds are, you'll probably need to pay at least something in fees when everything is all said and done."

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