

Understanding When to Recast a Loan

This guide explains what recasting is, when it makes sense, who is eligible, and how it compares to refinancing.

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A Guide by The Housing Assistant



Introduction

Loan recasting is a powerful financial tool that allows borrowers to reduce their monthly mortgage payments without the need for a full refinance. This guide explains what recasting is, when it makes sense, who is eligible, and how it compares to refinancing. It is designed to help mortgage professionals, processors, and customer service teams guide borrowers through post-closing options effectively.

What is a Loan Recast?

A loan recast, or re-amortization, is a process where a borrower makes a large one-time principal payment on their mortgage, and the lender recalculates the monthly payment based on the new, lower balance. The interest rate and term remain the same, but the monthly payment is reduced.

Recast vs. Refinance Comparison

Feature	Recast	Refinance
New Loan	No	Yes
Credit Check Required	No	Yes
Closing Costs	Minimal or none	Yes
Changes Interest Rate	No	Yes
Changes Loan Term	No	Yes
Lowers Monthly Payment	Yes	Yes

When to Consider a Loan Recast

- After making a large principal payment (usually \geq \$5,000–\$10,000)
- Want to lower monthly payments without changing rate or term
- Common scenarios:
 - Home sale with proceeds applied to new mortgage
 - Receiving a bonus, inheritance, or cash infusion
 - Relocation with employer equity assistance
 - Financial planning for retirement income

Eligible Loan Types

- Typically allowed on Conventional loans (Fannie Mae/Freddie Mac)
- Must be serviced by a lender that allows recasts
- Generally not allowed on:
 - FHA loans
 - VA loans
 - USDA loans
- Jumbo loan recasts vary by investor policy

Borrower Requirements

- Must be current on mortgage payments
- Submit a written request for recast
- Pay a processing fee (often \$100-\$500)
- No appraisal or income verification required
- Only applies to loans that are not in forbearance or loss mitigation