

# THE REAL DEAL

## “Dying” for cash

*More NYC homeowners tap life insurance to help refinance mortgages*

By [Peter Kiefer](#) May 01, 2012

A growing number of New York City–area homeowners are finding cash in an unexpected place: their life insurance policies.

In order to take advantage of historically low interest rates, more and more borrowers are dipping into cash reserves from their life insurance to help refinance their mortgages, industry insiders said.

It’s a strategy some view as controversial, since it involves borrowing funds intended for survivors after the policy holder dies.

But a number of mortgage and finance experts say it can be a smart move under certain circumstances, especially for a borrower with no dependents.

Josh Fox, a Manhattan-based financial advisor with the wealth management firm Strategies for Wealth, said dozens of his clients over the past two years have used the so-called cash value of their life insurance policies to help pay down their mortgage principal. Reducing that mortgage debt — which is referred to as a “cash-in refinancing” — allows them to qualify for reduced mortgage interest rates, which in some instances are as low as 3 percent. “Essentially, what you’re doing is spending the death benefit while you’re alive,” Fox explained.

These days, Fox said, rarely a week goes by without someone asking him (or his colleagues) about how to tap the cash value of their life insurance policy. That’s a marked increase from even a year ago, due in part to growing awareness of this option.



“Most consumers don’t even understand that this is possible,” he said. “They’re pretty excited to find out that there’s another way to help them refinance.”

Last month, interest rates returned to record lows, spurring a 13.5 percent rise in applications for mortgage refinances for the week ending on April 13, according to data from the Mortgage Bankers Association.

But to take advantage of these rates, many borrowers looking to refinance need some type of cash infusion, allowing them to pay down the mortgage principal so they can meet the higher debt-to-income ratios that banks now require.

“The reason it is more popular now is because the loan-to-value restrictions have gone down,” said Rolan Shnayder, director of new development lending at mortgage bank H.O.M.E. “You used to be able to borrow 100 percent of a [mortgage].”

Nationally, some 49 percent of homeowners who refinanced their mortgages in 2011’s fourth quarter paid additional money to lower their principal balance, according to Freddie Mac. That is the highest percentage in the 26 years the entity has been recording such transactions.

A cash-in refi also comes in handy when the appraised value of a home has fallen due to changing market conditions. In that scenario, banks often won’t allow homeowners to refinance unless they put in cash to bring the amount they owe in line with how much the house is worth.

Pulling cash out of a life insurance policy is tantamount to taking out a loan; when the borrower replaces the money, an interest rate of 4 to 6 percent per year will be levied on whatever they borrowed.

But unlike borrowing from a 401k retirement account, using a life-insurance cash reserve does not result in onerous fees and tax penalties. Plus, it has no bearing on credit scores, making it a relatively cost-effective way to tap liquidity, Fox said.

The strategy works best for borrowers who have whole life insurance, which includes investments like stock and bonds, as opposed to term life insurance, which pays only the face amount of the policy to the beneficiary upon the death of the insured.

“It is actually a really good solution to a lot of problems if you have whole life insurance,” said Tracy Becker, president and founder of North Shore Advisory, a New York–based credit restoration and education company.

In 1993, Becker bought a house in Forest Hills, Queens, for \$120,000. To come up with the principal, she tapped the cash reserve of her life insurance policy. Four years later, she sold the house for \$320,000.

“I knew it was a really great real estate deal,” she said. “But without that life insurance cash value, I would never have done it.” She has since paid back the loan.

More recently, one of Fox’s clients — a 35 year-old advertising executive who asked to remain anonymous — bought a condo in Hell’s Kitchen and tried for several months to refinance. But he didn’t have enough equity to meet the bank’s requirements.

On Fox’s advice, he took out about 50 percent of the cash reserve he had built up in his life insurance policy, which he’d been contributing to for 15 years.

“It was pretty much a no-brainer,” said the borrower, who does not have children. “It saved me a few thousand dollars off my monthly [mortgage] payment.”

But industry experts urge borrowers to use caution when considering borrowing against life insurance, especially if they have dependents who are likely to need the money should anything happen to the policy holder.

Shnayder cautioned that homebuyers shouldn’t view their life insurance policy as a “piggy bank to fill up another piggy bank.”

Tapping life insurance to help refinance a home can be effective for those individuals disciplined enough to pay back the loan in a timely manner. But costs mount through compounded annual interest as more time passes.

Michael Giannetto, a New Jersey–based mortgage loan originator at Residential Home Funding, said borrowing against life insurance should only be used as a last resort. He noted there are other options to help distressed homeowners refinance, including Fannie Mae and Freddie Mac’s Home Affordable Refinance Program.

“Unless it was a last resort or the only solution, I would not recommend it,” he said. Fox doesn’t see it that way, noting that by borrowing against life insurance, “you’re not changing someone’s net worth, you’re just changing how their debt is positioned,” he said. “They’re not disinherit their family.”

He added that much of the stigma arises from misperceptions about life insurance. People “don’t realize how powerful it can be while they’re alive,” Fox said.