



DIVORCE LENDING · PLAIN-ENGLISH GUIDE

How a home buyout gets priced

When one spouse keeps the home and buys out the other's share, how that refinance is classified changes the rate, the cost, and how much equity you can actually reach. Here's the part that matters.



The most expensive mistake in a home buyout is letting it get financed as a **cash-out refinance** when it did not have to be. When one spouse keeps the marital home and refinances to pay the other their share of the equity, how that loan is **classified** drives the rate, the closing cost, and how much equity you can actually reach. Two loans that move the exact same dollars can be priced very differently.

The distinction that matters

A refinance that pays off the current mortgage and buys out an ex-spouse's **documented** equity share can be treated as a **rate-and-term refinance** (the industry calls it a "limited cash-out"), not a cash-out refinance. That one classification is worth real money: a better rate, lower cost, and a higher loan-to-value limit.

Why the classification is worth money

- **Better rate and lower cost.** Cash-out refinances carry pricing add-ons that push the rate and fees up. A rate-and-term buyout skips them.
- **More equity within reach.** A rate-and-term refinance typically allows financing up to about 95% of the home's value on a conventional loan, versus roughly 80% on a cash-out. That extra room is often what makes the buyout possible at all.
- **Qualifies on one income, cleanly.** The spouse keeping the home takes title to 100% and qualifies on their own, with the departing spouse paid their share at closing.

What unlocks it is the paperwork. To be priced as a rate-and-term buyout, the equity split has to be spelled out in a written agreement: the divorce decree, the settlement, or a court order. No documented buyout, no favorable pricing. That is exactly why the mortgage side should be looked at **before** the settlement language is final.

The tradeoff

Priced as a buyout

- Pays off the existing mortgage and the ex's documented equity share.
- Better rate and lower cost than a cash-out.
- Often up to about 95% of value, so more equity is reachable.

Where it tips into cash-out

- Taking money above the payoff plus the documented buyout reclassifies the whole loan as cash-out (worse pricing, roughly an 80% cap).
- The appraised value sets the number the buyout is figured from, so the appraisal matters.
- The keeping spouse has to qualify on their income alone.

Short story: a marital-home buyout does not have to be an expensive cash-out. Documented properly in the decree, it can be financed as a **rate-and-term refinance**: better rate, lower cost, and more equity within reach. The move is to price it on the mortgage side **before** the settlement is signed, so the language supports the better loan instead of accidentally forcing the worse one.