

Advice: Act Sooner Rather Than Later Refinancing is a smart move

Advice by Kenneth Harney

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WASHINGTON — Is it a refi renaissance? Or a fast-closing window of opportunity?

Nobody can answer these questions for certain, but there's no doubt about this: Thanks to the lowest mortgage interest rates in a year and a half — an average 5.6 percent for conforming 30-year fixed rate loans and 5.07 percent for 15-year loans — nearly 60 percent of all new mortgage applications by mid-January were for refinancings, according to data compiled by the Mortgage Bankers Association.

Some home-loan companies reported much higher proportions. At the Associated Mortgage Group Inc. of Portland, Ore., 80 percent of new applications so far this month have been for refinancings. "This has been the busiest January I've had in 20 years" as a result of the rapid surge in refinancing requests, David Jolivette, Associated's president, said.

Although much of the demand is coming from homeowners facing payment resets on adjustable-rate and interest-only loans, many applicants simply want to take advantage of the rates in the mid- and upper-5 percent range — often with no out-of-pocket cash costs to themselves.

Jay Brinkmann, vice president for research and economics at the Mortgage Bankers Association, said so-called "no-cost" refinancings — where transaction fees are rolled into the interest rate — "are absolutely an option" for people who took out fixed-rate loans in 2006 or 2007 when rates were at or above 6.25 percent.

Though the specifics vary from lender to lender, many brokers and mortgage companies can offer a zero-out-of-pocket deal for an extra quarter-point tacked onto the note rate. Assuming a \$400,000 existing loan amount, homeowners could save \$128 a month in principal and interest — \$1,536 over the course of a year — by moving out of a 6.5 percent mortgage into a new 6 percent, 30-year loan with no settlement costs.

Jeff Lipes, president of Family Choice Mortgage Corp. in Wethersfield, Conn., cautioned that some would-be refinancers cannot qualify in today's stricter, post-boom underwriting environment.

For example, appraised values are a major hurdle for some homeowners. During the boom years when property values were soaring, meeting the minimum equity tests for refinancings was rarely a problem — even when owners wanted to pull out additional cash.

But during the past nine months, most national lenders have tightened underwriting rules and are now extra cautious about appraisal accuracy, borrower equity and credit scores, especially in areas where prices have been soft or declining, says Lipes. As a result, owners who bought properties with minimal down payments a few years ago may now find their appraised values lower and their equity positions insufficient to qualify for a refinancing.

Absent appraisal issues, according to Lipes, applicants with solid credit histories, documentable income and lots of equity can readily refinance into new fixed-rate mortgages at anywhere from 5.625 percent to 5.75 percent, with no points and no cash out.

Meanwhile, rates on jumbo mortgages (\$417,000 and up) rates have fallen from 8 percent or more last summer to the upper 6 percent to 7 percent range — still too high for many potential refinancers. What's been fueling the sharp drop in mortgage rates and how long might rates stay low? Could the Federal Reserve's widely expected half-percentage point cut in short-term rates later this month flow through to the mortgage sector?

Brinkmann said the bellwether metric affecting mortgage rates is the 10-year Treasury security, not short-term rates. In recent weeks, there has been a "flight to quality" in the bond market toward ultra-safe Treasuries, he says. That demand has helped push long-term mortgage rates down. How long this continues will depend heavily on investors' perceptions of where the national economy is headed. Brinkmann's own forecast calls for 10-year Treasuries "to start moving back up" at some point during the coming quarter.

Bottom line: Whether you're thinking about refinancing your current mortgage or taking advantage of January's exceptionally low rates to buy a house, don't sit around. Acting sooner rather than later should be a smart strategy.