



## Is It Time To Refinance?

Mortgage rates are very attractive right now, so it's once again time to evaluate if refinancing your current mortgage makes sense. If you've held a mortgage for more than a few years, you may have been through this before, perhaps even more than once, but it could pay to take a look again given the low rates on offer.

Rates have hit historical lows multiple times in the last several months (according to data Freddie Mac has been tracking since 1971). This drop is due to direct action by the Federal Reserve, which has been buying billions of dollars' worth of mortgage-backed securities from Fannie Mae, Freddie Mac, and Ginnie Mae in an effort to stimulate the housing market. According to Bloomberg News, this action lowers the supply of this debt, thus boosting its price, and lowering its yield, or mortgage rates. Freddie Mac's latest weekly figures, published May 14, indicate that average rates for a 30-year fixed rate mortgage are 4.86% with .6% points, and average rates for a 15-year 4.52% with .6% points.

Figuring out if you're a candidate for a re-fi is a fairly simple matter, but not as simple as most internet calculators would lead you to believe. A good calculator is that offered by Jack Guttentag, also known as The Mortgage Professor, on his website here:

[www.mtgprofessor.com/mpcalculators/RefinancingOneMortgage/Refil.asp](http://www.mtgprofessor.com/mpcalculators/RefinancingOneMortgage/Refil.asp)

This calculator assumes you have a single mortgage, fixed-rate, and are evaluating refinancing into the same. Guttentag believes that the only way to evaluate a re-fi is to calculate all costs of your current mortgage over the intended life of the loan, and compare those to the costs of a new mortgage over the same time period. His analysis takes into consideration factors that most simple internet calculators do not, such as foregone earnings on the refinancing costs, and the total cost of interest paid after the mortgage interest deduction.

Guttentag also offers a good summary of who is likely to qualify for the lowest rates available for refinancing right now:

- Borrowers who have loan balances of \$417,000 or less (conforming loans),
- who are looking to refinance a single family home that they live in (rates are higher for condos, multiple-family homes, and investment real estate),
- who have credit scores of 740 or above (you can check your credit score free once a year at [www.annualcreditreport.com](http://www.annualcreditreport.com)), and
- who have at least 20% equity in their home.

Unless you have a good reason not to, when you refinance a loan that has less than 30 years to run, you should plan on paying off the new mortgage over the same remaining time period -- why allow a refinancing decision based on lowering your interest rate to extend the time you're carrying a mortgage? Guttentag's calculator allows you to specify loan terms in five year increments to get closer to your desired payoff term despite taking on new 30-year debt, for example. To make sure you don't forget those extra monthly payments, it's usually a very simple matter to ask your loan servicer to add a specific extra dollar amount onto your monthly payment (if you've automated those payments from your bank account).

Refinancing is going to make the most sense for those of you who have many years left on your existing mortgage, and who missed the last refinancing wave. If we can provide any assistance as you work this decision, please let us know.

--Therese Govern. Posted 05/18/2009.