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A PRIME TIME TO REFINANCE

15-year mortgages haven't been this cheap since the Fifties.

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On August 18, rates on 15-year FRMs were averaging 3.36%. Freddie Mac reported the lowest interest rates in at least 50 years in its August 18 Primary Mortgage Market Survey. In fact, it noted record lows across the board. Rates on conventional 30-year home loans were averaging 4.15% on August 18. (The last time 30-year mortgage rates were this minimal was during a stretch in 1950-51 when FHA-backed 30-year FRMs averaged 4.08%.) Average interest rates for 5/1-year ARMs and 1-year ARMs were respectively at 3.08% and 2.86% in the August 18 survey.^{1,2}

You can chalk these new lows up to skidding Treasury yields. In fact, the yield on the 10-year note actually dipped below 2% for a moment on August 18.³

Those able to refinance are seizing the moment. The Mortgage Bankers Association reported that refi applications rose by 30% in the week ending August 5 to the highest level seen so far in 2011.⁴

If you can do it, keep your long-term goals in mind. Years ago, a refi came down to one factor: if you could knock a couple of percentage points off your interest rate, you did it. Today, it's a bit more complex. There are three aspects to consider: a) how much you can save per month, b) lender points and fees, and c) how long you intend to live in your home.

Let's say a refi frees up \$150 for you each month. Sounds great, right? It isn't so great if the mortgage company tacks on a point up front (think \$1,500-5,000, depending on the amount of your loan) and a few hundred dollars in fees. If you're only going to stay in that home for a few more years, that refi is hardly worth it.

If you plan to live in your home for many years, then it's a different story; you may be poised for substantial savings. This is a simple example, of course. If you are moving from a 30-year loan to a 15-year loan or vice versa, or if you are among those getting out of "ARMs way" and refinancing into a fixed-rate mortgage, you've got more variables to think about.

How long will rates stay this low? It is truly hard to say; recent history has illustrated that. On April 10, 2010, a *New York Times* headline blared: "Interest Rates Have Nowhere to Go but Up". At that time, the average rate for a 30-year fixed mortgage was 5.31%. Look where it is now.⁵

Could rates go even lower? If 10-year Treasury yields were to fall even further, that could happen. While the Federal Reserve wants to refrain from QE3, it could again print money and buy Treasuries to cheapen the dollar and help the stock market.

However, the Consumer Price Index rose 0.5% in July - the biggest increase since March - with annualized inflation running at 3.6%. The Fed's informal inflation target is 2%, so a gap like that would seem to preclude a QE3.

Of course, the Fed has pledged to keep near-zero interest rates in place into 2013 on the expectation that inflation will decline - half of the 0.5% jump in the July CPI could be traced to the rise in retail gasoline prices.⁶

Through the years, bond investors have often gauged interest rates on conventional home loans by adding about 1.7% to the current percentage yield of the 10-year note. On August 17, Dow Jones Newswires polled bond dealers to get a consensus forecast for the 10-year Treasury yield; they expect yields to end 2011 at 2.5%. Some fund managers and strategists feel that benchmark Treasury yields could end the year under 2.0%. These forecasts imply rates on 30-year FRMs of anywhere from 3.6-4.2% by around New Year's Eve.⁷

Interest rates will move north at some point, so a window of opportunity beckons - and no one really knows how long it will stay open.

Think before you make a move. Before you get out that pen and sign anything, talk about your options for refinancing with a qualified mortgage specialist, and talk to your financial consultant to see how your choice to refinance relates to your overall financial situation.



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Citations

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