JTD

Financial Services, LLC

33 South Commercial Street
Manchester, New Hampshire 03101
Tel: 603-641-1010
Fax: 603-641-0707
e-mail: fdemaio@jtdfinancial.com
www.jtdfinancial.com

A PRIME TIME TO REFINANCE?

Interest rates on 15-year fixed mortgages are near record lows.

Provided by Frank DeMaio*

Mortgages have become even cheaper. This summer, economists and real estate industry analysts looked at skidding Treasury yields and wondered just how much further interest rates on home loans could fall. The answer: perhaps even further.

On November 17, interest rates on 15-year FRMs averaged just 3.31%. Rates on conventional 30-year home loans averaged 4.00%, and average rates for 5/1-year ARMs and 1-year ARMs were respectively at 2.97% and 2.98%.[1]

The yield on the 10-year note was just 2.01% on November 17, and it has been paltry all fall. We recently saw all-time lows of 3.26% for the 15-year fixed and 3.94% for the 30-year fixed (in Freddie Mac's October 6 Primary Mortgage Market Survey).[2,3]

Those able to refinance are seizing the moment. 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 might not be 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

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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.[4]

In November, Cleveland Fed President Sandra Pianalto told Reuters she expects inflation to retreat from the current pace of about 3.5% to around 2% and stay at about 2% through the end of 2013. That kind of forecast doesn't imply further easing (and the higher interest rates it would encourage). The Fed has left short-term interest rates near zero for about three years now, and has shifted $2.3 trillion into long-term Treasuries to help keep borrowing costs lower.[5]

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. In August, Dow Jones Newswires polled bond dealers to get a consensus forecast for the 10-year Treasury yield; they expected yields to end 2011 at 2.5%. Some fund managers and strategists felt that benchmark Treasury yields could end the year under 2.0%. If that holds true, rates on 30-year fixed mortgages would be in the vicinity of 3.6-4.2% circa New Year's Eve.[6]

Interest rates will move significantly 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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