

Low Rates Spur Increase in Applications for Mortgage Refinancing

2009 has already handed consumers some good financial news, which is a welcome change in the current economy. Interest rates for a fixed rate 30 year mortgage were the lowest in decades, well below 5 percent. The drop in interest rates have encouraged many current homeowners to apply for mortgage refinancing. In fact, the number of people applying for mortgage refinancing was at the highest point in half a decade. Applications increased 25.6 percent from the week prior and the level of activity has not been this high since June 2003.

There have been so many applications for mortgage refinancing that some analysts in the housing sector say that it is causing a tiny boom in real estate. It would be a larger one, they say, if new lending practices were not so tight and values were not so low. Some homeowners no longer have enough equity to qualify for mortgage refinancing, due to lower home values. In Ventura County in California, for example, it is estimated that of the properties purchased there within the last five years, about 40 percent are now worth less than their purchase prices. Other homeowners who may have been approved for mortgage refinancing just a year ago may not have a high enough credit score to qualify under the new lending practices. A minimum of 700 is the credit score bar for many banks now.

Many financial analysts believe that interest rates will remain low the next few months, since the federal government agreed to purchase \$500 billion of mortgage backed securities in the hopes that it would spur lower lending rates and encourage consumers to take on new mortgages. It would be wise to get the ball rolling, if you are considering mortgage refinancing. The general rule is that if the interest rate is 1 percent lower than your current rate, then it would be wise to undergo mortgage refinancing. In addition, you need to examine your own budget and goals to know if mortgage refinancing will be worth it to you for the time you plan to own the house. First, calculate what your monthly savings would be by comparing your current payment to the estimated payment under the new rate. Then add up all the costs of the mortgage refinancing. Divide your refinancing costs by your estimated monthly savings. This total (given in months) will tell you when you will make up the costs of the refinance and start seeing savings each month, also known as when you will break even. If your break even point is longer than the time you expect to own the property, then it may not make sense to undergo mortgage refinancing.

About the Author

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