The Washington Post **Buy Page Print** Printer Friendly Loan Rates Fall to 30-Year Low [FINAL Edition]
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Steve MacNabb is a refinancing fan -- after all, he remembers his 12 percent mortgage.
MacNabb, a bank executive, said he has refinanced the mortgage on his Vienna home two or three times since he bought it in 1983, back when interest rates were in the double digits. Most recently, this spring he brought down the rate to 7.5 percent on that loan as well as the one on his family's weekend place outside Annapolis. But this month, he decided to refinance again.
"Seven was kind of a magic number for me. I've yet to be able to ever catch it below seven," he said. About a week ago he locked in 6.625 percent mortgages on both properties.
"I feel great. It's wonderful," he said.
In fact, rates on home mortgages are now at their lowest point in 30 years -- 6.66 percent this week for a 30-year, fixed-rate loan. (Freddie Mac, the secondary mortgage market company that tracks rates weekly, has only been keeping numbers since 1971, but other statistics that aren't precisely the same show rates in this range in 1968.)
"The last time rates were this low was between the Tet Offensive and Woodstock," said Robert Van Order, chief economist at Freddie Mac.
That's brought on a rush of mortgage applications in the last two weeks, both from buyers and refinancers. Mortgage applications are up 80.2 percent compared with a year ago, according to the most recent figures from the Mortgage Bankers Association of America. Refinancing represented 55.4 percent of mortgage activity.
For homeowners who haven't decided yet whether to refinance, it's time to do the math.
Julian Klazkin has analyzed his situation, and he has decided to wait for rates to drop further. The government lawyer's Bethesda home now carries a 7.125 percent mortgage, down from 12.5 percent in the 1980s.
He figures it makes sense for him to refinance again if rates hit 6 percent because he would save $163 per month.
Is that rate, unseen since the 1960s, just a dream? Klazkin is optimistic.
"I remember the times they said it wouldn't go below 10 percent," he said. "Then it was 9 percent. Then 7 percent was impossible."
Warren Brewer, a nuclear engineer who lives in Fairfax County, decided to refinance for the certainty, rather than just for a lower rate. For the last several years, he has had an adjustable-rate mortgage. "It hasn't been too bad," he said. At one point, the rate was as high as 9.25 percent, but now it's at 7.5 percent. This month, he decided to switch to a fixed-rate loan, which he has locked in at 6.75 percent.
"It's not going to drop my rate a tremendous amount, but it will give me the stability," he said.
There are other reasons to consider refinancing. Some homeowners use the opportunity to cash out equity. Others are taking advantage of low rates to speed up their mortgage payoff. Patrick J. Casey, senior vice president of Crestar Mortgage, said a homeowner who got a 30-year fixed-rate mortgage from November 1994 to March 1995 probably has a rate of 9.5 percent. "They can drop 3 percent on the rate, and literally go to a 15-year term for the same payment," he said.
Rates are at their lowest point because of broader market forces. As a rule mortgage rates track the rate on 10-year Treasury bonds. These rates plummeted this summer as investors, spooked by global market instability, moved their money to high-quality safe harbors such as Treasury securities. Mortgage rates decreased more slowly, but they did fall.
Because mortgage interest rates depend on the markets, they can fluctuate quickly. "Rates are falling daily, but it is an extremely volatile market," said Phillip T. Grisdela, vice president of First Union Mortgage Corp. "Rates can keep dropping -- but rates can also spike up at any moment."
What does all this mean for the individual homeowner? Mostly, it means that this is a time to evaluate whether refinancing would work for you. "Right now, there are very few people who have mortgages that are lower than what's in the market," said David Berson, chief economist at Fannie Mae.
The last low point in the mortgage market was in 1993. For people who got their loans then, it's probably not worthwhile to refinance, said Charles Vance, area manager for Norwest Mortgage. But just about everyone else should consider it, he said.
First, forget the old rule of thumb that it is only worthwhile to refinance a mortgage when you can lower your rate two percentage points or more. "The reason it was 2 percent was people always assumed you were paying points," or upfront origination fees, Vance said. Very few refinancers do that now.
Instead, examine your individual situation. For example, on a $500,000 mortgage, a tiny rate change can save hundreds of dollars a month. But on a $50,000 mortgage on a condominium, even a full two-point drop might not be worth the trouble and expense.
Deciding whether it is worthwhile to refinance often comes down to determining whether you will be in your home -- or in that particular mortgage -- long enough to recoup upfront costs.

"It's a simple recapture period analysis," said Brian Martucci, branch manager at Columbia National Mortgage's Bethesda office. "What am I spending and what am I saving?"

Think about how long you plan to remain in your home. If you hope to sell in a few months, refinancing won't be worth it.

Grisdela said that lately he has dealt with many customers who see low rates not as an opportunity to refinance, but rather as a chance to move up -- they can afford a more expensive house for the same monthly payment.

To begin your analysis, find the papers on your current mortgage. You want to determine who your current mortgage servicer is, when you took out the loan, what the rate is and what your outstanding balance is. You may have to call the servicer to get your current balance, but many of them have automated telephone systems that can quickly tell you. (Can't find your account information because the dog ate your monthly mortgage statements? Check your tax return files; your annual statement is probably there.)

There are plenty of ways to shop for the best rates. Review tables

such as the ones in the Real Estate section, call lenders directly, contact mortgage brokers or check the Internet.

To determine how much a lower rate will cut your payment, you can ask the lender or broker, or you can figure it out yourself. You can determine payments using any of the many mortgage calculators available on the Internet, or do it the old-fashioned way with interest amortization tables, which are available at any library or book store.

Make sure to check with your current lender. Many will give existing customers a break on fees, such as those for credit reports and appraisals; that can cut costs by about $350. (The savings are even greater for Virginians, who can avoid extra recordation tax by staying with the same lender.)

Martucci pointed out that lenders are competitive.

To offer attractive rates, he said, some lenders "play a game with fees." Make sure, he cautioned, that a lender who offers a slightly lower rate than the competition isn't making back the difference by charging higher fees.

"Be careful," he said. "People call up so excited, they'll believe anything. Slow down, take your time and just look at the numbers."

Some things to take into account:

Points. A point is an upfront lending fee equivalent to 1 percent of the face value of a loan. Paying points results in a lower interest rate. But current rates are below 7 percent with no points, so experts say there's little reason to shell out the money. "I'm sort of a big fan of paying no points," said Grisdela. "Points on average take five years to recoup the cost of, I don't care what size the loan is."

Some "no-point" loans may come with origination fees -- a technical difference that translates to the same expense. So if a lender is advertising a no-point loan, double-check that there are no origination fees either.

Closing costs. No loan is free. Even with no points and no origination fees, there are still closing costs -- title fees, attorney fees, credit checks, surveys, appraisals and other charges. These usually amount to $1,200 to $2,000, depending on jurisdiction, loan size and other factors.

That doesn't mean you need all that money at the closing table. Some lenders offer "no-closing-cost" mortgages. These have higher interest rates than they would otherwise, by about one-half percentage point. Frequently, borrowers opt instead to roll the closing costs into their loan. That means they increase the amount they borrow. At current rates, this will increase monthly payments on a 30-year loan by around $10.

Loan term. Think before you automatically refinance your current 30-year loan with a new 30-year one. Unless you refinanced a very short time ago, you have already made some progress in paying down that mortgage. Extending the loan term will increase your cash flow, but it also could mean that you're still paying years longer than you might otherwise. It's possible to get a loan for a shorter term, such as 25 years. The monthly payments will be higher than on a 30-year loan of the same size.

Loan size. When you see mortgage-rate averages, they usually refer to "conforming loans," those that fit the requirements of Freddie Mac and Fannie Mae, the other big secondary mortgage market company.

Rates are about one-half point higher for loans of more than $227,150, called jumbo loans, which are common in a high-cost area such as the Washington region.

Credit: Washington Post Staff Writer