



Rising Tide  
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## A PRIME TIME TO REFINANCE

**Rates on 15-year fixed mortgages at near record lows.**

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**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%.<sup>1</sup>

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).<sup>2,3</sup>

**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 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.<sup>4</sup>

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.<sup>5</sup>

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.<sup>6</sup>

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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### Citations

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