

Refinance or Wait

Interest rates for mortgages dropped recently to an average of just over 5.5 percent for a 30 year mortgage. It was the most drastic weekly rate decrease in almost 30 years. There are plans for the Treasury Department to lower rates to 4.5 percent for those purchasing homes, and may extend those rates to homeowners wishing to refinance. A lot of consumers are taking the opportunity to refinance their mortgages now. It was reported the week after Thanksgiving that applications to refinance mortgages were up 200 percent from the week prior. Some consumers with ARMs are deciding to refinance to a fixed rate offering to give them some payment predictability. There are other consumers that refinance to lower their monthly mortgage bills. The rates may be enticing, but banks have also tightened their lending practices. As a result, a lot of consumers who submitted applications to refinance were denied. To qualify for the lowest rates, consumers must now have excellent credit scores and must put in a bigger downpayment. The decrease in property values for many mortgage holders makes eligibility for refinance more difficult, as some of those consumers have lost significant equity in their homes.

The low interest rates will continue to entice consumers, particularly those looking to refinance. While many mortgage holders are grabbing the current round of low interest rates, others are waiting to see if the rates will drop further. Just as rates go down, rates can go up and you could miss a golden opportunity to refinance. Most analysts advise consumers who are looking to refinance to take the bull by the horns and lock in the low rates. If you are wondering if a refinance makes sense for you, the simplest thing to do is calculate your savings and costs for the time you plan to hold the mortgage. Subtract the estimated new monthly payment from your current monthly payment to determine how much you would save each month under the new rate. Next, determine how much the fees and costs of the refinancing will run you. Lastly, divide the total cost of the refinance by the monthly savings to figure out how many months it will take you to actually start saving on your monthly payments. This is called your break even date. If you plan to be in the house later than your break even date, it is probably worth trying to refinance. For example, it may take 15 months to recoup the costs of the refinance. If you plan on owning the house for 3 more years, then the refinance is beneficial.

It is hard to predict what will happen with mortgage interest rates. If you would like to refinance, it may advantageous for you to lock in the low rates now and not gamble that they will drop enough to make a big financial difference for you.

About the Author

Learn more about [refinance](#), visit www.getsmart.com/refinance.

Source: <http://learnitarticles.com>