

Mortgage Refinancing Boom

The New Year brought with it a little financial relief for consumers. Interest rates for a fixed rate 30 year mortgage were the lowest in decades, well below 5 percent. The low rates have resulted in an increase in applications for mortgage refinancing. A survey released by the Mortgage Bankers Association shows that applications for mortgage refinancing were at a five year high. 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. They claim the boom would be bigger, if it were not for decreases in home values and stricter lending standards. Value decreases have caused decreases in homeowner equity, and in some cases homeowners now own so little equity that they are not eligible for mortgage refinancing. 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. The higher credit scores and spotless credit records now required for mortgage refinancing mean that fewer consumers now meet the standards. A minimum of 700 is the credit score bar for many banks now.

Since the government announced that it would buy a large number of mortgage backed securities, many expect that mortgage rates will continue to be low for the next quarter. If you are interested in mortgage refinancing, now is a good time to shop around. 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. It is, however, more important to look at your particular situation and determine if the cost and savings over the time you intend to own the mortgage makes sense. First, calculate what your monthly savings would be by comparing your current payment to the estimated payment under the new rate. Tally up the actual mortgage refinancing costs, such as an appraisal, lawyer and documentation fees and other closing costs. 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.

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