

Should I Wait for Lower Rates Before I Refinance

The end of November, the average interest rate on a thirty year fixed rate mortgage was around 5.5 percent. It was the biggest drop in a week since the 1970s. The federal government has designs to drop the rates even lower for home buyers, and the same trend may drop rates for homeowners who would like to refinance. Many homeowners are jumping on the bandwagon to refinance. 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. Unfortunately, lending standards have become much more restricted as a result of the credit crisis. As a result, a lot of consumers who submitted applications to refinance were denied. Lenders are requiring higher credit scores and higher down payments. 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.

Homeowners wishing to refinance will undoubtedly be tempted by low mortgage rates. 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. Many financial experts think that if you are considering a refinance, it would be wise to take the current 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. The last step is to calculate when you would earn back any refinance expenses incurred, by dividing the costs by the savings. That total number of months is known as the "break even point." If you plan to be in the house later than your break even date, it is probably worth trying to refinance. Say, for instance, your break even date would be 18 months from the time of your 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 plan to refinance, consider taking the opportunity to do so under the current low rates before they go up again.

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