Wait for Lower Rates to Refinance?

Interest rates for mortgages have dipped lower than what we have seen for quite some time.   In fact, it is rumored that the Department of Treasury may drop the rates to under 5 percent for consumers purchasing homes. There is no talk about offering those same rates to current homeowners wishing to refinance, but rates for refinance should not trail far behind. Many analysts are hopeful that low rates will kick start the real estate market. Others feel that offering lower rates to prospective buyers may not provide the desired boost. Many potential home buyers are hesitant to purchase at a time when the market may not be at a low point. Low rates may not be enough, when many are apprehensive due to their decreased investment portfolios and job insecurity.

Most of the news reports rally around the idea of getting potential buyers to start purchasing from the surplus of existing home inventory. There is not, however, much talk about the majority of homeowners in this country. There are plenty of homeowners that pay their mortgages and have equity in their homes. Those homeowners could benefit from lower interest rates, as many will want to stay in their homes and refinance. The glut of current home inventory would not be made worse by home owners who refinance. Most people refinance to lower their monthly payments. The more money those consumers save, the more likely they are to make improvements to their homes and put money into the economy via retail and services. Any government effort to spur the real estate sector should incorporate low refinance rates. A stimulus plan that only focuses on home buyers misses a chance to encourage current homeowners to help kick start the sluggish real estate sector. Those wishing to refinance are often those who have a good payment track record, good credit, and will otherwise help support this economy with solid spending habits.

Many homeowners wishing to refinance are not gambling on the government dropping rates any further. According to the Mortgage Bankers Association, applications for refinance at the end of November had increased by 200 percent from just the week prior. Many of those applications, however, are being denied. The problem for many homeowners looking to refinance is the decline in home values and the tightening of lending standards. If a consumer purchased a home at the height of the boom and then saw his house value decline, he may no longer have enough equity to be approved for the refinance. A homeowner that purchased before the housing boom and has substantial equity in his home, however, would be wise to grab the current low rates and hop on the refinance train. This may be a once in a lifetime opportunity.

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