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Homeowners Can't Hop on Low Rates

Many in U.S. Could Lower Their Mortgage Rates but Don't Qualify

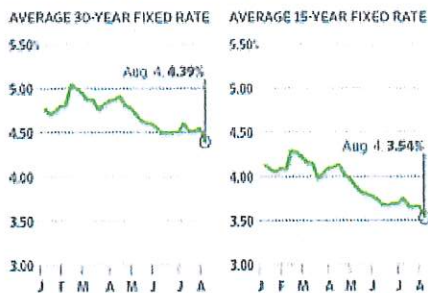
By NICK TIMIRAOS

Mortgage rates have fallen to the lowest levels of the year, fueled by new worries that the economy could be sliding back toward recession. But rates may need to drop even lower to ignite a major refinancing wave.

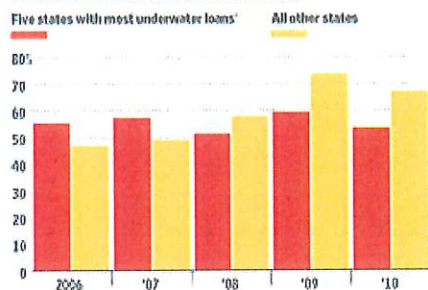
The average rate on 30-year fixed-rate mortgages fell to 4.39% in the week ended Thursday, according to a widely watched survey by government-backed mortgage company Freddie Mac. That is down from 4.55% last week and a high of 5.05% six months ago. Rates on 15-year fixed-rate loans dropped to 3.54%, the lowest rate since Freddie began its survey in 1991.

Tapped Out

Mortgage rates have fallen to their lowest levels this year, but since the housing market's collapse, states with more underwater borrowers have seen less refinancing activity.



REFINANCINGS AS A SHARE OF MORTGAGES



Arizona, California, Nevada, Florida and Michigan
Source: Freddie Mac (rates), CoreLogic (refinancing)

Nearly 42% of all borrowers with a 30-year fixed-rate loan could lower their rate by one percentage point given current rates, according to researchers at Credit Suisse. But some may not qualify because they don't have enough equity in their home while others have had their income or credit scores fall. Mortgage analysts say rates would need to fall to about 4% to ignite major refinance activity.

Some lenders, to be sure, are reporting a surge in refinancing activity. Quicken Loans said it took in more applications on Wednesday than any single day in its 26-year history, narrowly eclipsing levels seen last fall. "It's not as though everybody who could have taken advantage of lower rates last year did so," said Bob Walters, Quicken's chief economist.

Richard Oberle knocked about \$200 off of the monthly payment for his Murietta, Calif., home when he lowered his mortgage rate to 4.88% last week from 5.88%. Mr. Oberle, who didn't pay any origination fees to refinance, said he will apply the savings toward paying off his loan over 20 years instead of 30. Mr. Oberle didn't refinance last year when rates fell to similar levels because his income wasn't strong enough to qualify.

Mortgage rates tend to track yields on 10-year Treasury notes, which are falling as anxious investors snap up Treasury securities and sell stocks. By late Thursday, yields on the 10-year

Treasury were 2.46%, down from a February high of 3.74%.

The Treasury and Federal Reserve have taken unprecedented steps over the past three years to keep mortgage rates low and spur refinancing. And the White House two years ago rolled out a program that allows underwater

borrowers with loans backed by Fannie Mae and Freddie Mac to refinance if the amount of the mortgage is no more than 125% of a home's value. But that program hasn't been widely used.

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The number of unsold homes listed for sale declined sharply in a number of U.S. cities during the second quarter, offering glimmers of hope that some housing markets could be entering a recovery phase. Nick Timiraos has details.

Also, because mortgage rates have been at or near-historic lows for several years, many borrowers who could refinance have already done so.

Some economists and mortgage bankers say new-loan fees charged by Fannie and Freddie have made it less practical for many of these borrowers to refinance. A borrower who doesn't have pristine credit or a big down payment can be forced to pay higher fees that are passed along from banks in the form of higher rates. So a borrower with, say, a credit score of 650 and just 10% in equity could end up with an interest rate that isn't close to the widely quoted low rates. "All of a sudden, refinancing may not make sense," Mr. Walters said.

hurdle for refinancing.

Instead, they say banks are reluctant to refinance riskier borrowers, even if those loans are already guaranteed by Fannie and Freddie, because they don't want to assume the risk that they would be forced to buy back the loan in case of default.

"One of the biggest problems right now is qualifying," said Nicholas Strand of Barclays Capital. "For originators, the risk-reward profile" of refinancing riskier borrowers "is not very good."

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refinance program.

Federal policy makers are looking at ways to ease some refinancing hurdles. Sen. Barbara Boxer (D., Calif.) has introduced a bill that would waive the risk-based fees, eliminate the 125% loan-to-value limit, and make other adjustments to the

"Let's face it, a lot of these folks, if they aren't able to refinance, they're going to say, 'I just can't do it anymore,'" said **Thomas Lawler**, an independent housing economist in Leesburg, Va., who supports the bill.

A rule of thumb holds that every one-percentage-point decline in rates effectively reduces home costs for buyers by roughly 10%. If mortgage rates were to rise by a percentage point, the monthly payment on a \$500,000 mortgage increases by \$300, or by \$18,000 over five years.

"This is a gold mine of savings, and people don't even appreciate it," says Jeff Lazerson, chief executive of Mortgage Grader, a brokerage in Laguna Niguel, Calif.

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