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Plunging Rates for Refinancing Aid the Thrifty

By DAVID STREITFELD

For those sober souls who were thrifty long before it became fashionable, the last few years have been intensely aggravating.

They did nothing to cause the recession, but they absorbed the pain. Their stock portfolios languished. The values of their homes skidded. Their savings still do not earn enough interest each month to buy a pack of gum.

Now, at last, the frugal are celebrating. With a leg up on their less creditworthy neighbors, they are qualifying for refinanced home mortgages at interest rates that in any other recent era would have been considered stealing. And unlike in late 2008, when rates started their plunge to historic lows, many lenders say they are rushing to accommodate the influx in applications.

Wilner Samson and Michelle Smedley, both doctors, just refinanced their home in West Hartford, Conn., saving $300 a month. “There were times during the housing boom when I felt I was missing out on a big party,” said Dr. Samson, a kidney specialist. “Now I’m getting my reward.”

Refinancing activity surged in early October when mortgage rates fell for the fifth week in a row, pushing the volume to one of the highest levels of the year, the Mortgage Bankers Association said.

Many economists expect the trend to continue as the Federal Reserve moves further to bolster the economy.

And while the credit elite get the best treatment, for the first time since the recession began the rewards of lower rates are beginning to spread to some of those with less than exemplary finances or just more complicated circumstances, according to data from Fannie Mae, which buys millions of mortgages from lenders.

Kathy and Mike Bernreuter have been working on the refinance of their home in Northbrook, Ill., since May. The property taxes in their escrow account were improperly credited, a small mistake that nevertheless threatened to put the mortgage in default. They had to get a home equity loan on their former apartment, which they could not sell, and apply the funds to their house.

It was an ordeal that threatened to ruin their summer — and not so long ago, would have been a nonstarter for most lenders — but the effort paid off.

This month the Bernreuters were told their new loan was on track for approval. Their mortgage payment should soon drop by more than $1,000 a month.

“Now we’ll have more money available to us to actually fix up this house,” said Mrs. Bernreuter.

For competitive reasons, the large lenders are reluctant to reveal their refinancing numbers, but they acknowledged that the news had been getting ever better for many borrowers. JPMorgan Chase, for instance, said that “refinancings have increased dramatically as a percentage of all new mortgages from a year ago, and the refinancing dollar volume has risen even more dramatically.” Chase also said it had added staff to its refinancing unit to process applications more quickly.

Interest rates for 30-year fixed mortgages this week were 4.21 percent, just slightly above the 4.19 percent record set earlier this month, Freddie Mac, the other large mortgage company, said. The current level is estimated to be the lowest since the early 1950s. Two years ago, rates were about 6.5 percent.

Lower rates are merely a dream if you do not qualify. Early on, as the rates were coming down, Fannie Mae and Freddie Mac were tightening standards on loans they purchased. Lenders would not refinance loans they could not sell to the holding companies.

Now Fannie and Freddie have stopped tightening and may be loosening requirements a bit. The average credit score of a Fannie Mae borrower rose to 761 in 2009, from 716 in 2007. In the second quarter of this year, it was 758.

In 2007, before housing started to slide in earnest, about one in six Fannie borrowers had less than 10 percent equity in their property. A small slide in values could wipe them out and encourage defaults, which is exactly what happened to many.

Last year, only one in 33 borrowers had that little equity, because of stricter terms by banks. But in the first half of this year, the level was creeping back up, to one in 17.

"The nice thing about this mini-refi boom is that folks who have got into a loan that is a bit of a ticking time bomb have the opportunity to get out," said Kevin Marshall, president of the research firm Clear Capital.

Another upside of the refinancing surge is that households with more cash in their pocket tend to spend it. And more refinances might also help heal the troubled housing market.

"If you could wave a magic wand and give a refinance to everyone who wanted one, that would absolutely reduce the problem of folks who are defaulting," said Mr. Marshall.

Bobby Frank, a Valley Stream, N.Y., mortgage broker, offers this advice for homeowners who have been turned down in the past: "Call your bank. Every day, like a hungry dog, call and ask."

A different approach worked for Tom Foley when he tried to refinance his home in Cape Cod, Mass. His lender, one of the biggest, sent him a letter inviting him to refinance. Then it gave Mr. Foley a lengthy run-around despite what he says is his excellent credit.

Mr. Foley compared his original lender to Hal, the computer in the film “2001: A Space Odyssey.” “They pretend to be personal, but are far from it,” he said. “If there isn’t an office around the corner you can walk to, stay away from it.” He eventually refinanced with a local bank, Sovereign.

Refinances are still a long way from the boom of 2003, when volume reached $2.5 trillion. The Mortgage Bankers Association estimates that this year’s volume will be about $900 billion. Analysts calculate that more than two-thirds of all households with mortgages could benefit from a new loan. Many of those families owe more than their home is worth, which all by itself rules out a refinance. There are no shortage of proposals to create a magic wand to help these 11 million homeowners.

Happy are the borrowers who do not need to wait for aid that may not come. Dr. Samson, the Connecticut physician, was taught the virtues of saving by his father, an immigrant from Haiti who died this month with all bills paid.

Dr. Samson and his wife are not taking the monthly savings from their refinance and spending it. Instead, they are continuing to pay the same amount each month. “Paying down the loan faster opens up options for us,” said Dr. Samson, who is 42. “We might want to retire early.”