

Record low mortgage rates toss housing a lifeline

By Lynn Adler Lynn Adler 2 hrs 59 mins ago

NEW YORK (Reuters) – With the \$500 of monthly savings Jim Hennessy of San Diego gained by cutting the rate on his \$417,000 mortgage, he plans to rebuild his beaten-up retirement account and maybe even take a cruise.

This is the outcome the U.S. government was driving at when it said it would pump hundreds of billions of dollars into buying mortgage bonds, freeing up lenders to make new loans and lower-rate refinancings that spur consumer spending and the economy.

"Maybe there's a vacation in our future, maybe a cruise because those rates have come down so much," said Hennessy, managing director of a marketing firm.

The worst housing slump since the Great Depression has crippled top international banks and has tipped the world's biggest economies into recession.

Hennessy cut his mortgage rate by a full percentage point by refinancing 11 days ago into a 5-1/2 percent 30-year loan.

That will help to pay college tuition for his children, and "we'll probably put more into savings and try to have some semblance of a retirement," he said.

Hennessy is just one example of borrowers aiming to reduce their home loan payments or buy a home as a result of government actions to push mortgage rates to new lows.

The average 30-year U.S. mortgage fell more than 1/4 point in the week ended December 18, to 5.19 percent, the lowest since Freddie Mac started its weekly survey 37 years ago.

It was the seventh straight weekly decline and brought rates down from about 6-1/2 percent in October.

The decline was also the result of the Federal Reserve cutting its benchmark federal funds rate target to a record low this week.

"Being baby boomers, we're looking down the road at retirement, and are making every effort to be as debt free as possible," Hennessy said.

Deep stock market losses and two years of home price declines have shredded wealth for many homeowners who may be able to restore some of their losses with cheaper borrowing.

Rodney Anderson, managing partner of Rodney Anderson Lending Services, a unit of Supreme Lending, in Plano, Texas, said mortgage applications are starting to flood in.

"We're seeing pre-approvals in the amount comparable to 2003, and July 2003 was my biggest month ever in mortgage history," he said. "I closed 287 loans that month and we're already seeing closings occurring in December and our January pipelines are just starting to launch."

Swapping high-rate home loans for more affordable mortgages is driving most of the demand, but purchases are also starting to revive, he said.

"With current low gas prices and the amount of money people save on refinancing, this is an opportunity for the economy to start making moves in the right direction," Anderson said.

MULTIPLE CHOICES

An overabundance of unsold homes has been one of the biggest thorns in this housing crisis. In addition, much lending froze amid huge write-downs by banks on soured mortgages and record foreclosures.

The latest interest rate cuts may be enough to entice some buyers who were waiting for even lower prices. Borrowers with strong credit have plenty of homes from which to choose.

Keith Freeman, a director at a technology consulting firm who now rents in Atlanta, plans on moving to Miami and has made a bid on a house there. Despite some trepidation that rates could fall still further, he said, "Rates are historically low, let me just bite on something."

It makes it easier that he doesn't have to sell a home, a stumbling block for many buyers in a struggling market.

"I'm not concerned about myself," Freeman said. "I have phenomenal credit, money in the bank, a good-paying job, I can put 20 percent-plus as a down payment. I know I'm a candidate that lenders will probably drool over and I can close in a minimal amount of time."

But borrowers without pristine credit and easily documented income will have a harder time. Stringent lending standards could mean that at least a third of those who apply to refinance will fail to win approval, several analysts said.

Many owners also have mortgages that are higher than their homes' value, and won't be able to refinance.

"Don't count your chickens before they've hatched," advised John Murray of Realty Executives Prestige Properties in Boston.

"Historically speaking, if we saw a half-a-point rate drop we would expect a 10 percent rise in sales," he said. "There's a lot of desire, but we have yet to see if that yields fruit."

Courtesy of JB Goodwin