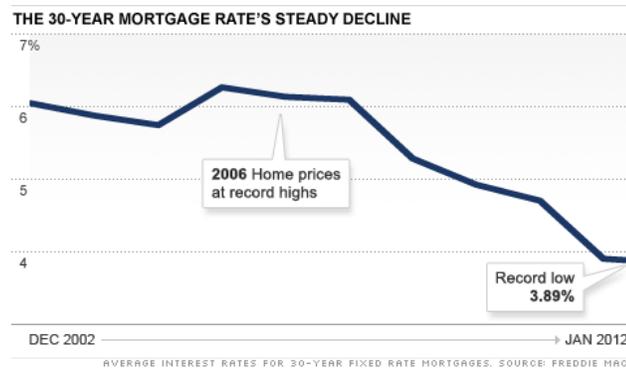


# Mortgage applications surge amid record-low rates

By Les Christie

January 18, 2012: 5:56 PM ET



NEW YORK (CNNMoney) -- Mortgage loan applications surged 23% last week, according to the Mortgage Bankers Association, as record-low interest rates convinced many homeowners it was time to refinance into lower-cost loans.

Refinancing activity climbed 26.4% during the week ending January 13, to its highest level since early August, the MBA reported. Meanwhile applications for new mortgages climbed 10.3% week-over-week.

The heightened activity comes as mortgage rates test new bottoms. Last week, rates on both the 30-year and 15-year fixed loans fell to new records, at 3.89% and 3.16%, respectively, according to Freddie Mac.

The vast majority of the applications -- 82.2% -- were to refinance existing loans rather than purchase new ones, the MBA said.

The fact that purchase applications significantly lagged those for refinancings underscored a truism about low mortgage rates, said Doug Duncan, chief economist for Fannie Mae (**FNMA**, **Fortune 500**). "[Home] sales are a lot less interest-rate sensitive than people think," he said.

## Home sales during boom worse than thought

Even with ultra-low rates, existing homes sales languished in November at an annualized rate of 4.4 million, according to the National Association of Realtors. That's well below the "normal" rate of between 5 million and 6 million.

Duncan pointed out that low and declining interest rates may cause homebuyers to hesitate: They may expect them to fall even further.

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On the other hand, rising rates, which often accompany an improving economy, can give potential homebuyers a reason to act -- before rates and prices become less affordable.

### A near-miss for ARM holders

Low rates have had a positive impact on the housing market in at least two important ways, said Keith Gumbinger of HSH Associates. First, there are those borrowers who were able to avoid foreclosure by refinancing and lowering their monthly payments.

Then there are the tens of thousands of homeowners with risky adjustable-rate mortgages who have avoided potential disaster. These borrowers could have been hit hard had rates been higher when their loans reset. But instead, they are saving money, he said.

Adjustable-rate mortgages reset under a formula that involves a margin, specified in the contract, and an index, usually the one-year London Inter-Bank Offerer Rate (LIBOR). Margins on option ARMs range between 1.625% and 2.5%, and the current LIBOR rate is around 1.1%. That combines for a very affordable rate of 2.7% to 3.6%.

"For anyone with the guts to hang on, ARM borrowing has been very favorable," said Gumbinger. "If you took the risk, you could be enjoying the results right now."

### Less favorable rates coming?

However, the days of record low rates may be ending -- thanks to a recent action by

Congress.

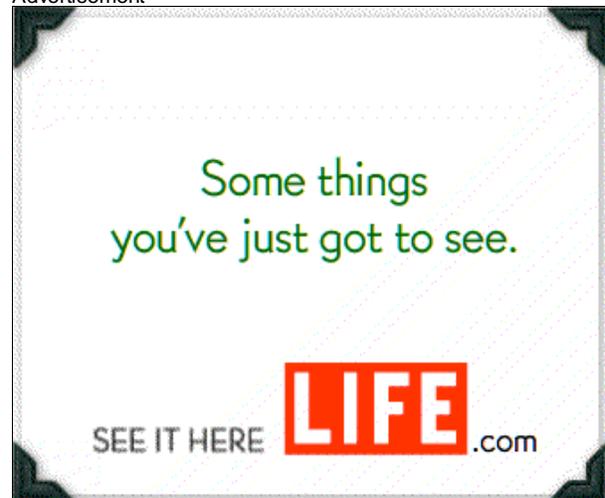
To pay for the extension of payroll tax cuts, Congress mandated an increase in fees for Fannie Mae and Freddie Mac loans. That could mean an increase in upfront costs for borrowers of about half a point, starting April 1.

The average fee borrowers pay now is about 0.7% of the mortgage balance for a 30-year and 0.8% for a 15-year, according to Freddie, or about \$700 or \$800 for every \$100,000 borrowed. The new fee would add \$500 for every \$100,000 in principal.

Instead of paying upfront, borrowers could pay the fee as a higher interest rate. Gumbinger said it would mean an additional one-eighth of a point to their rate.

That may not sound like much, but adding an eighth of a point to interest rates comes to an extra \$225 a year or so on a \$250,000 mortgage, according to Scott Sheldon, a loan officer with W.J. Bradley Mortgage in California.

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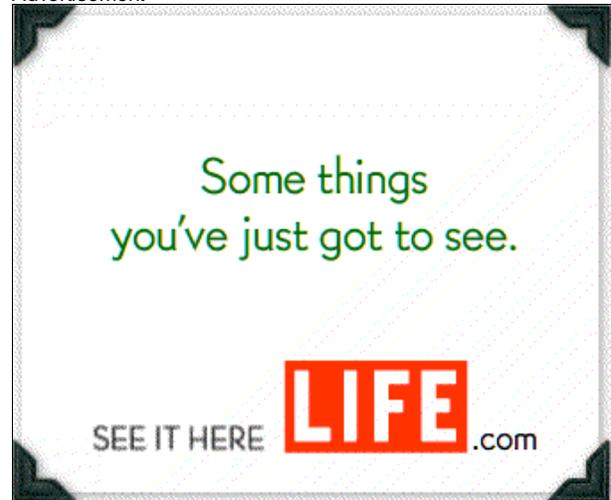
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"I'm telling all my clients that they need to get a lock immediately," he said. [Find homes](#)

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First Published: January 18, 2012: 5:32 PM ET

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