BUSINESS

Homeowners pick quicker

Lowest mortgage rates in decades let borrowers build equity faster

By Stephanie Armour
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More homeowners are refinancing into shorter-term loans, saving a bundle by taking advantage of the lowest mortgage rates in decades.

Nearly a third of borrowers refinancing fixed 30-year loans in April through June picked loans with 15- or 20-year terms, mortgage finance giant Freddie Mac says. It was the highest share since 2004.

The trend has been driven by near-weekly drops in rates all summer.

Average rates on fixed 15-year loans fell below 4 percent for the first time last week, dropping to 3.92 percent, according to Freddie Mac. A year ago, the average 15-year rate was 4.68 percent.

Meanwhile, the rates on fixed 30-year loans now average 4.44 percent.

At today's rates, a borrower with a 30-year loan at a 6.5 percent interest rate and a $200,000 principal balance could save some $70,000 in interest over the life of a shorter 20-year loan.

"It's borrowers looking to build equity more quickly, and borrowers have generally been paying down their loans more quickly," says Keith Gumbinger, vice president of HSH Associates, a publisher of mortgage and consumer loan data.

Peter Iche, president of Carthage Federal Savings and Loan Association in Carthage, N.Y., says he's seen an increase in people who are approaching retirement refinancing to shorter-term loans.

"They realize that they can afford a heavier payment," he says. "They're getting closer to retirement where they are willing to suck it up for a few years."

payoff

With rates at record lows, a higher volume of refinancings would be expected, says Mark Zandi of Moody's Analytics.com. But high unemployment and lost home equity is preventing many borrowers from doing so, he says.

Mortgage application volume for both home-purchase and refinancings has been tepid because many potential borrowers lack high enough credit scores, sufficient income or enough equity to qualify for new loans.