Mortgage rates hit lowest in 50 years

'Historic' bargain — for those qualified

By Julie Schmit
USA TODAY

Mortgage rates are falling to levels unseen since the 1960s, driving a surge in home refinancings among credible borrowers.

The government's efforts to aid the mortgage market have driven rates to near 50-year lows, says Keith Gumbinger, vice president of financial market researcher HSH Associates. Refinancings have tripled in the past month as a result, he says.

"This is an historic opportunity," Gumbinger says. "This is the program for borrowers not in trouble."

Mortgage-finance giant Freddie Mac reports the average 30-year fixed-rate mortgage slid to 5.19% this week, the lowest since Freddie Mac started its weekly mortgage market survey in 1971. The 30-year rate was 5.47% last week and 6.14% a year ago.

This week's drop was helped by the Federal Reserve's decision Tuesday to cut a key interest rate to a record low and its pledge to give the ailing mortgage market more help if necessary.

The low rates stand to help tens of millions of homeowners cut monthly payments, which could result in more spending on goods and services and lift the economy, says Marc Savitt, president of the National Association of Mortgage Brokers.

The big questions are whether rates will go lower and how long they'll stay down.

Homeowners should act now because rates aren't likely to go much lower and they tend to rise faster than they fall, Savitt and Gumbinger say.

"We're probably somewhere near the bottom," Gumbinger says.

The rapid fall in rates — set off in late November when the federal government said it would buy up to $600 billion in mortgages held by or guaranteed by Freddie Mac, Fannie Mae and others — has spurred a crush of refinancing applications that has caught banks, mortgage brokers, appraisers and others off guard.

Lenders and others associated with the mortgage business cut so many jobs earlier this year that processing bottlenecks are beginning to show up.

"It's been a complete frenzy," says Robert Walters, chief economist of online home lender Quicken Loans. "We're working 18 hours a day to keep up. It'll be more challenging for people to get in for processing."

Not everybody is benefiting from the mortgage rate drop. Given rapid declines in home values the past year, many people owe more on their homes than they're worth and can't refinance. Nor can those with shaky credit.

Homeowners with jumbo loans — including many in high-priced states like California — still face rates around 6.9%.

Low rates also haven't enticed new buyers, says Orawin Velz, who does economic forecasting for the Mortgage Bankers Association. It said this week that loan applications were up 37% for the week ending Dec. 12 from the same week in 2007. Refinancings were 77% of applications, compared with 44% in all of 2007, Velz says.

The low rates will eventually help the housing industry. They may prevent some foreclosures next year if homeowners with adjustable-rate mortgages avoid increases — or see dips — thus lowering monthly payments, says Greg McBride, senior financial analyst of Bankrate.com.

Low rates will also help bring first-time buyers, Savitt says.

The National Association of Realtors is also hopeful. It says mortgage rates, which averaged 6.3% in the third quarter, are in the 4% range in some parts of the country — and that will bring buyers back into the market.

Fifteen-year fixed rate mortgages have also fallen. They averaged 4.92% for the week ending Dec. 18, according to Freddie Mac. That's the lowest since April 2004 when they averaged 4.84%.

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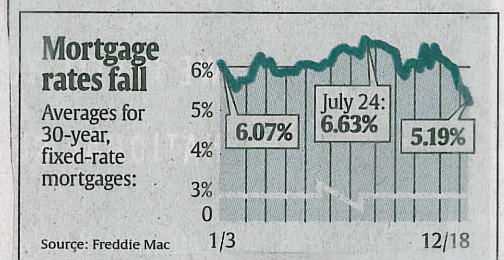

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