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'Magic number': Loans below 5% drive home sales, refinancing

By Sue McAllister
smcallister@mercurynews.com

Posted: 10/08/2009 04:40:05 PM PDT

Updated: 10/09/2009 09:30:14 AM PDT

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Home loan rates below 5 percent have sent first-time buyers and would-be refiners flowing into local lending offices to take advantage of the best deals in five months.

"That magic number does seem to be 5 percent," said Brad Blackwell, national sales manager for Wells Fargo Home Mortgage, who said his company has seen applications jump in the past few weeks. "It's a psychological barrier that, once crossed, people jump in."

The national average rate for 30-year, fixed-rate loans fell to 4.87 percent this week, down from 4.94 percent last week, according to a report Thursday from Freddie Mac, a government-run source of mortgage financing. The last time the average rate was lower was in May, at 4.82 percent.

Average interest rates for 30-year "jumbo" loans, those of more than \$729,750, were 6.51 percent

this week, up from 6.46 percent last week, according to [Bankrate.com](#).

Cathy Warshawsky of Bay Area Loan said fence-sitting customers began calling about two weeks ago as interest rates skirted 5 percent. Most of her customers are refinancing to lower their payments, she said.

But other local brokers said there are plenty of customers hoping to buy homes soon, including some trying to close deals before Nov. 30, when the federal tax credit of up to \$8,000 for first-time homebuyers is set to expire.

Though 45- to 60-day escrows are common lately — with banks requiring much documentation and new appraisal rules often resulting in delays — Warshawsky said it's conceivable that buyers jumping in now could close loans by the tax-credit deadline. But that's only if the transaction is for a "regular," non-bank-owned property.

"If you're not dealing with a foreclosure property, you can get it done in 30 days," she said.

In Washington, D.C., House Speaker Nancy Pelosi said Thursday that lawmakers might extend the credit, Bloomberg News reported.

"The question is, would that be just first-time homeowners or would you open it up to other purchasers of homes?" Pelosi asked.

Sandie Day, who works in human resources for Santa Clara County, said low rates prompted her to refinance her longtime West San Jose home. Using a new loan of about \$340,000, she's consolidating her first and second mortgages, plus taking some cash out of her equity to pay off debt and do energy-efficiency home improvements.

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When her loan closes in a couple of weeks, the rate will actually be slightly higher than what she had on her first mortgage, "but in the long term, it's going to be better for me," she said. "I just really want to consolidate everything I have and make a strong financial plan."

San Jose mortgage broker Rob McCarthy of The Honte Group said that for customers with stellar credit scores and 40 percent equity in their properties, refinancing loans could be had for as little as 4.75 percent this week, with no points paid upfront. A point is equal to 1 percent of the loan amount; some borrowers opt to pay points in exchange for lower interest rates.

Nationwide, homeowners and buyers appear to be responding to the lure of cheap financing. A report this week from the Mortgage Brokers Association said that two-thirds of loan applications filed in the week ending Oct. 2 were for refinances. Applications for refi's shot up 18 percent compared with the week before, and applications for home purchase loans rose 13 percent.

Tracie Southerland of Opes Advisors, a lender in Palo Alto, said the era of super-low mortgage rates will come to an end in the months to come, as the Federal Reserve gradually stops buying the mortgage-backed securities that provide financing for the vast majority of mortgages nationwide. The Fed announced that plan last month, without specifying when the pullback will begin.

"There is concern that interest rates will go up as that purchasing slows down," she said. "That is triggering people to think, 'If I'm going to take some action, I should probably take it now' "

Contact Sue McAllister at 408-920-5833.

MORTGAGE SAVINGS

Monthly principal and interest payments on a 30-

year, \$400,000 mortgage:

5%: \$2,147.29

6%: \$2,398.20

Interest paid over the life of the loan:

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