

With interest rates dropping, homeowners rush to refinance

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Things are looking down for T.R. Chandrasekar, and he couldn't be happier.

As interest rates drop, the Dublin homeowner has refinanced his mortgage twice in less than a year. During the summer, he saved \$150 a month by lowering his interest rate from 7.75 percent to 7.25 percent. Mr. Chandrasekar was expecting to pick up another \$140 each month when his second refinancing was completed in late October, trimming the interest rate on the mortgage for his four-bedroom house to 6.75 percent.

"I do numbers. I ran the numbers [for refinancing] and it made sense," says the Pacific Bell engineer.

His broker, Paul Bains of Global Finance in San Jose, says the rush of homeowners eager to refinance has stretched his workweek to 80 hours and lengthened the paperwork-processing time from three weeks to as long as six.

"The volume is tremendous," Mr. Bain says. "A lot of people are refinancing."

In the past 12 months, interest rates have dropped as much as 4 percent for some types of loans, part of Federal Reserve Chairman Alan Greenspan's efforts to kick the U.S. economy out of its doldrums.

"It's a big refinancing time," says Joel Spolin, president of Absolute Mortgage Banking in Palo Alto.

He recently helped a client save more than \$1,000 a month by lowering a five-year, fixed-rate mortgage from 7.25 percent to 6.25 percent. At the old rate, the client was paying \$5,116 each month on his \$750,000 mortgage. But after refinancing, his payments are \$3,906, he says.

That client quickly will recoup refinancing costs of about \$2,500, Mr. Spolin says. But

not everyone will see savings so quickly, or at all.

Unless mortgage-holders can lower their interest rate by at least three-quarters of a percentage point, refinancing probably isn't worthwhile, Mr. Spolin says. But the larger the loan, the greater the savings, because refinancing costs remain fairly constant.

Generally, refinancing is a wise move for homeowners planning to stay put for more than three years, says Michael Mendoza, owner of Broker's Mortgage in San Jose. That's about how long it takes to recover closing costs.

Homeowners with adjustable-rate mortgages will save more from refinancing than those who hold 30-year fixed-rate mortgages.

A 30-year, fixed-rate mortgage on \$500,000 carries an interest rate of 7.125 percent, Mr. Spolin says, while a five-year, fixed-rate mortgage is 6.25 percent. An adjustable-rate mortgage for the same period is 2.95 percent.

Mr. Mendoza says he's seeing clients take advantage of lower interest rates to consolidate first and second mortgages.

Once customers secure their savings, they've been putting the money toward anything from their children's college tuition to paying off credit-card debts to making home improvements, area mortgage brokers say.

About 90 percent of May Construction Inc.'s major home projects are funded through clients' refinancing rather than a nest egg or stock earnings, says Greg May, president of the San Jose company.

"Every time interest rates have been low in the past, it's always been good for this business," he says.

Mr. Spolin's clients, who work in the tech industry or are dependent on it, have been forced to put their savings toward living expenses. "It allows them to wait it out until times get better," he says.

Some homeowners with secure jobs have earmarked their refinancing savings for a splurge. Mr. Chandrasekar plans to apply his refinancing windfall toward a \$51,000 CLK 320 Mercedes-Benz convertible for his wife, Wendy Siegel. The couple considers the acquisition an act of patriotism -- to help the U.S. economy, Mr. Chandrasekar notes.

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