

Low rates lure homeowners, but banks loath to refinance

By David Streitfeld

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Mortgage rates in the United States have dropped to their lowest levels since the 1940s, thanks to a trillion-dollar intervention by the federal government. Yet the banks that once handed out home loans freely are imposing such stringent requirements that many homeowners who might want to refinance are effectively locked out.

The scarcity of credit not only hurts homeowners but also has broad economic repercussions at a time when consumer spending and employment are showing modest signs of improvement, hinting at a recovery after two years of recession.

Refinancing could save owners hundreds of dollars a month, which could be spent, saved or used to pay down debts. Extra spending would help lift the economy, and lower payments might spare some people from losing their homes to foreclosure.

The plight of homeowners has become a volatile political issue. On Friday, as the House passed a series of financial regulations, it narrowly defeated a provision that would have allowed bankruptcy judges to modify the terms of mortgages. The measure was strongly opposed by the banking industry.

President Barack Obama, in his weekly address Saturday, placed much of the blame for the recession on "the irresponsibility of large financial institutions on Wall Street that gambled on risky loans and complex financial products, seeking short-term profits and big bonuses with little regard for long-term consequences."



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Mark Belvedere wants to refinance the mortgage on his Santa Rosa, Calif., condo, but his bank has refused, citing the property's lost value. "It makes no sense and is so frustrating," he said.

The president is scheduled to meet with banking executives at the White House on Monday in another effort to increase the flow of loans to consumers and small businesses. Among those expected to attend are representatives from Citigroup, JPMorgan Chase, Bank of America, Wells Fargo and Goldman Sachs.

An estimated 6 of 10 homeowners with mortgages have rates that exceed the 4.8 percent rate currently available on 30-year fixed mortgages, the least risky form of home loans. Nevertheless, refinancing applications have fallen 57 percent since early January, when the Federal Reserve began to push down rate.

Mortgage applications to purchase house showed modest improvement for much of the year but recently fell sharply to their lowest level in 12 years.

"The government has succeeded in driving mortgage rates down to their lowest level in our lifetime," said Guy Cecala of *Inside Mortgage Finance* magazine.

"That hasn't been a big home run, because a lot of people can't take advantage of it."

It is unusual for mortgage money to be available below 5 percent. Average rates fell as low as 4.7 percent in the 1940s, as the government held down interest rates to finance World War II, and stayed just below 5 percent until the early 1950s. Average rates went above 5 percent in 1952 and stayed there — until this year.

The super-low rates are not likely to last. The Federal Reserve program that has driven rates to such lows, which involves buying \$1.25 trillion in mortgage-backed securities, is scheduled to expire in March, and Fed leaders have said that it would not be renewed.

Some analysts believe rates could jump as high as 6 percent in the spring. On a \$300,000 mortgage, such a jump would cost an extra \$225 a month.

Banks say they are under

pressure from regulators to raise cash reserves, which means fewer loans. They also argue that a troubled economy breeds extreme caution.

But some borrowers argue that more refinancings now might well forestall losses for the banks later.

Mark Belvedere bought a two-bedroom condominium in a San Francisco suburb in early 2004 and refinanced it in 2005. He now owes \$235,000 on a property that would sell for barely half that today.

Belvedere said he would be willing to live with that lost equity if he could refinance from a variable rate, which could go as high as 12 percent, into a 30-year fixed term. His lender said no, citing the diminished value of the property.

"I'm ready and willing to pay the mortgage for the next 30 years, but they act like they'd rather have me walk away," Belvedere said.