

## Is Now the Time to Refinance?

*Recently, PIAM has made available the special banking and investment services of Boston Private Bank & Trust Company. One of its many services is the availability of residential mortgages. This article describes recent changes in the mortgage lending markets.*

Stand by the office water cooler or listen to the chatter at a cocktail party and you are likely to hear someone boast about recently refinancing their home into a historically low interest rate. At a time when many are worried about their employment and the losses they have experienced in their investment or retirement accounts, this is one bright spot; the chance to save thousands of dollars of interest over the life of your mortgage loan.

This rise in refinance activity seems to contradict reports in the media that have created an impression that loans, particularly jumbo loans, are no longer available or are extremely high-priced.

There certainly have been changes in the residential lending climate so let's try to sort through how the credit crunch has affected mortgage lending. The ability to purchase or refinance is predicated on three factors. The first factor is the amount of your down payment (for a purchase) or the outstanding debt in relationship to the appraised value (for a refinance). This is referred to in the mortgage industry as loan-to-value. The second factor is the borrower's credit score and the third is the analysis of the amount of housing and other debt carried in relationship to income. In recent years, loans were granted in situations where there was little equity, income was not documented and the credit history was checkered. With a tightening of credit standards you must now show strength in all three of these areas.

At this time there are two factors that most often prevent a refinance. The first is a decline in the value of the property. The second is the unwillingness of some second mortgage holders (equity lines or equity loans) to subordinate their lien so that the entity granting the new first mortgage can be the first lien holder.

There is a great deal of confusion over current interest rates and the trend those rates may take. New reports and websites tend to quote mortgage interest rates in broad terms without defining any parameters. Loans for most counties in Massachusetts are now in three categories- loans at or below \$417,000, referred to as conforming loans, loans between \$418,000 and \$465,750, referred to as agency jumbos, and loans above \$465,751, commonly referred to as jumbo loans.

When you hear a "national average" or you see a rate posted on a website it is most likely referring to the conforming loan amount of \$417,000 or less. The best rate is available to a borrower with a combination of a low loan-to-value, excellent credit score and strong income. There are adjustments or "hits" to the interest rate quoted when any one of these three factors varies. It is also possible that in today's market a weakness in one area can result in an inability to purchase or refinance a home.

BOSTON PRIVATE BANK  
& TRUST COMPANY

The next category of loans defined as an “agency jumbo” for loan amounts above \$417,000 but below \$465,750 have an upward price adjustment that can add anywhere from .50% to 1.0% to the conforming rate quote. The third category, jumbo loans have their own set of products and interest rates. Unlike the first two categories of conforming and agency jumbo loans which are still actively being purchase by agencies like Fannie Mae and Freddie Mac, there is little if any ability to sell these jumbo loans to third parties. Most jumbo loans are currently being originated and serviced by Banks. Interest rates for a jumbo 30 year fixed rate loan are significantly higher than either of the two aforementioned categories but there are attractive adjustable rate mortgages at significantly lower rates.

Whatever your needs are it is important to speak with someone who can help you navigate through the process. There are many options to consider and factors to take into account. Boston Private Bank has both conforming and jumbo lending capability and will be happy to answer your questions and assist you with your financing needs.

*Carole Cohen is a Senior Vice President in the Residential Mortgage lending area at **Boston Private Bank and Trust Company**. She has over 30 years of banking experience. Please visit the website at <http://piam.bostonprivatebank.com> to learn more about the services Boston Private Bank can offer.*