

Refinancing Boom Offsets Bust

The Real Deal

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While many potential buyers of residential real estate in New York City are waiting on the sidelines, expecting prices to fall further, the plunge of interest rates to historical lows has sparked an explosion in mortgage refinancing.

"We are definitely seeing tremendous interest in refinancing," said Brooke Jacob, CEO of Everest Equity in Suffern, N.Y. "Anybody with an open loan balance is trying to do it. Whether they own a unit in a condo or a co-op, whether it's a townhouse in an outer borough, a single-family home, an apartment complex or any real estate, when interest rates drop, you will see an influx of refinancing. Demand is huge."

In the first week of last month, the 30-year fixed mortgage rate averaged 4.84 percent nationally, a small rise from 4.78 percent in the previous week, which represented the all-time low since Freddie Mac began tracking the numbers in 1971.

The rate drop, of course, stems from the Federal Reserve's massive easing program. The central bank has pushed the key federal funds rate down to between zero and 0.25 percent. As a result, "Everyone is trying to refinance," said Jacob.

For many in the mortgage industry, the refinancing boom has been a welcome respite from the housing market bust. "The money is definitely flowing," Jacob said. "I've doubled my sales staff since the end of last year to 16."

About 80 percent of the loan requests her firm is submitting are being approved, she said.

Statistics for New York City are hard to come by, but officials at mortgage firms here said anecdotally that "refi" activity is now one of the few bright spots in their businesses.

Still, at least one study shows that New York State is lagging the country as a whole when it comes to refinancing. According to Inside Mortgage Finance Publications, which reports exclusively on the mortgage business, the U.S. experienced a 92 percent increase in mortgage-refinancing transactions during the first three months of this year from a year earlier, but New York State saw only a 6 percent rise.

That's largely because mortgage rates haven't dropped as low in New York as elsewhere.

Also, since there are fees involved in any refinancing, a homeowner typically would calculate how long it takes to amortize, or recoup those fees at a lower monthly mortgage rate — a kind of break-even point. With today's lower mortgage rates, that break-even point can be reached earlier — encouraging more homeowners to go for a refi. Co-op owners, however, pay a surcharge for their loans, which can act as a deterrent to refinancings in New York City.

Nationally, the numbers are eye-popping. The Mortgage Bankers Association's Refinance Index, which measures mortgage application volume, nearly quadrupled to 5,149 in the first week of

last month, from 1,346 in the first week in October, just after Lehman Brothers fell. Meanwhile, the portion of mortgage activity devoted to refinancing soared to 74 percent from 43 percent. To be sure, that 74 percent level represents a decline from the peak of 79.7 percent two weeks earlier.

For their part, local mortgage brokers said they're seeing a lot of refinancing. Rich Bouchner, managing director of Manhattan-based Commodore Property Group, which does mortgage consulting, said refinancing now constitutes a majority of his business. But while activity has picked up, it hasn't been enough to add staff, he said.

Keeping a lean staff when times are good, Bouchner said, ensures that business can survive rough periods, as well.

During the height of the real estate boom, when some lenders didn't require much money down for a purchase, mortgage brokers made more on new mortgages because the loans were bigger. But now, Bouchner said, he and other mortgage brokers can earn about the same amount of revenue from a mortgage refinancing as from a fresh purchase — though in this environment they have to keep the prices they charge for refinancing competitive.

Bouchner said he's seeing three types of customers: First are those who want to refinance but can't qualify because the value of their home is dropping or their personal finances are deteriorating. Others come in to refinance thinking they should lock in a lower-than-available rate of 4.5 percent for a 30-year-fixed loan. "That's what they are hearing on CNBC or reading in the Wall Street Journal," he said.

Finally, there are people who bought at 6.5 percent a few years ago who are happy to save a few hundred dollars and aren't bothered that the rate is 5.25 percent instead of 4.75 percent.

Melissa Cohn, president of Manhattan Mortgage Co., said that despite the refinancing growth, business is off about 40 percent from 2003, the firm's best year.

"But that was an extraordinary year," she pointed out.

Cohn said refinancing activity has doubled at her firm from a year ago and now makes up about 70 percent of the firm's business, up from about 40 percent during the real estate boom.

She said she hasn't needed to add workers because she didn't lay off many when the bust began.

Eric Appelbaum, president of Apple Mortgage Corp., on Manhattan's West Side, said "There was a flight to safety" as people "piled into every Treasury they could think of," as the 10-year Treasury rate plummeted to below 2.1 percent in December. Mortgage rates, he said, moved in tandem. For Bouchner's Commodore Property Group, the activity has intensified even more over the last three months.

"My guess is that a lot of folks were frozen in action across the board initially," he said. "They didn't know what was happening to the economy and jobs. Some wouldn't act at all, and others expected that the [Obama] administration would get rates to 4 percent. They realize that won't happen now."

The federal stimulus package also helped to fuel the refinancing machine.

The law lifted the limit on the size of mortgage loans Fannie Mae and Freddie Mac can insure in expensive living areas to \$729,750. The limit was originally raised to \$625,000 from \$417,000 last year.

Last year's increase "did very little to affect the market," Everest Equity's Jacob said. "The \$729,750 limit encompasses quite a bit more."

Still, mortgage brokers said they're working harder than they were during the boom. "The difference now is we are doing 10 times the amount of work to close the same file," said Appelbaum.

One reason that mortgage specialists are working harder is that there are fewer lenders to turn to for refinancing than during the real estate boom. Big-time banks like Citigroup, Bank of America and JPMorgan Chase have largely exited the business, sources said.

"We've had to find community banks like Hudson Valley, First Republic and Apple Bank," Bouchner said. "There are fewer loans and fewer lenders."

Wells Fargo, which has experienced perhaps the most success of any big bank in the mortgage market, is bypassing brokers, offering refinancing deals directly to homeowners. Banks, of course, have tightened their lending standards as well. Another difficulty is that with home prices continuing to fall, the values of some homeowners' properties have dropped close to, or even below, the values of their mortgages. Banks are reluctant to refinance for those people.

Jacob said that for the 20 percent of her customers whose refinancing requests aren't gaining approval, it's "based primarily on a shortage of value."

The refinancing boom is likely to continue for the rest of the year, mortgage brokers said. But they cautioned that the gravy train will eventually end as the interest-rate decrease that fueled it reverses. Already, 10-year Treasury bond yields have jumped above 3 percent.

"Everyone wants to take advantage of the low rates now," Cohn said. "There is great fear that with the government pumping in all this money to restore the economy, that will cause inflation. Rates will definitely go up."