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## Rates Fall, but Refinancings Are Limited

By JAMES R. HAGERTY and RUTH SIMON

Interest rates on fixed-rate mortgage loans for prime borrowers have fallen to below 5%, the lowest level since the 1950s, triggering a wave of mortgage-loan inquiries from borrowers eager to refinance. But lenders and mortgage companies say that as many as half of the people who want to refinance can't meet the credit hurdles and won't get approved.

The average interest rate on new 30-year fixed-rate mortgages in the week ended Jan. 9 was 4.89%, down from 5.07% a week earlier and nearly 6.5% at the end of October, according to the Mortgage Bankers Association. Mortgage rates have been falling steeply since late November, when the Federal Reserve announced a plan to buy as much as \$500 billion of mortgage securities. Demand for such securities has a major effect on rates mortgage lenders charge to consumers.

While the low rates haven't caused a stampede of people seeking loans to purchase homes, they have set off a wave of refinancing applications. An index measuring refinancings is at its highest level since June 2003, according to the Mortgage Bankers Association. At GMAC Mortgage, mortgage applications are up more than 75% in January from their levels two months ago, a company spokeswoman said.

But a large percentage of applications are being turned down. Only about a third of U.S. mortgage debt outstanding is likely to qualify for refinancing, said Doug Duncan, chief economist of [Fannie Mae](#). Nearly 70% of borrowers don't make the cut, he said, most often because their credit isn't good enough or they don't have sufficient home equity. A significant number of homeowners owe more than the current value of their homes, a situation sometimes known as being "under water." Others can't profitably refinance, often because they hold jumbo mortgages, those above the \$625,000 limit for loans that can be bought or guaranteed by Fannie Mae or [Freddie Mac](#) in the highest-cost areas.

"The refinance boom is mostly impacting the people who need help the least," said Scott Stern, chief executive of Lenders One, an alliance of mortgage bankers. "These are people who have good credit, who have had been in their homes a long time, people who already have conforming fixed-rate loans or government

financing."

Fannie said in May that it planned to make it possible for some underwater borrowers to refinance into loans totaling as much as 120% of the current property value. But a Fannie spokesman said that program hasn't yet taken effect. The company is looking into ways to finance such loans in some cases, he said.

Lenders say that the "pull through" rate -- the percentage of loan applications that result in loans -- has declined as the housing market and economy have weakened and credit standards have tightened.

At **BB&T Corp.**, based in Winston-Salem, N.C., the portion of applications that turned into loans dropped to 58% last year from 61% in 2007. The pull-through rate is likely to decline slightly for loans originated in the fourth quarter, a company spokeswoman said.

Taylor, Bean & Whitaker, another mortgage lender, says that less than half of refinance applications are now leading to completed loans, compared with about 70% two years ago.

With refinance applications surging, some lenders are stepping up efforts to weed out applications that aren't likely to be successful.

**Seacoast National Bank**, based in Stuart, Fla., recently began asking loan officers to get a preliminary sense of the property's value by checking online sites such as Zillow.com, the county tax assessor's office or other sources. With home prices in Florida plunging, only about 25% of refinancing applications are leading to loans, said W.D. Acosta, executive vice president for residential lending. Determining which of those loan applications are likely to succeed "is critical to how we will provide service and function as well as manage expenses," he said.

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