

## The New Economy

# Mortgage rates at 50-year lows. Should you refinance? Maybe not.

Mortgage rates have reached new lows, but many people refinance too early. To save the most money on lower mortgage rates, try this mortgage calculator.



Natick, Mass., real estate agent Beth Byrne refinances her mortgage in January 2009 through her company's executive mortgage banker, Susan Kelly (right). With mortgage rates hitting new lows this week, many homeowners rush to refinance. But they can often save more by waiting, say three economists, who have built a calculator to tell homeowners when they can save the most by refinancing.

(Melanie Stetson Freeman/The Christian Science Monitor/File)

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Interest rates are so low, it looks like a good time to refinance.

But wait! Interest rates could go lower. So should you delay or pull the trigger on a refi?

It's often tricky to tell, because the typical rules of thumb only tell you when refinancing will save you money. They can't tell you when it will save you the most money.

But an online calculator, developed by three economists, tells homeowners when refinancing can save them enough money that it doesn't make sense to wait anymore. (You can view it [here](#).)

You should refinance when "you're so far past the break even that it's not even worth waiting," says David Laibson, an economist at Harvard University in Cambridge, Mass., who developed the model with Sumit Agarwal of the Federal Reserve Bank of Chicago and John Driscoll of the Federal Reserve Board in Washington.

"Economists call this the option value of refinancing," he adds. "It's the idea that if interest rates fall a lot further, you have the option to refinance. If interest rates go up, you have the option not to refinance. That's a great deal, so take advantage of that. It's better than break even."

The formula uses all kinds of fancy math, but the calculator masks that.

Just plug in details about your current mortgage and prospective mortgage, your income tax rate, and how many years you plan to remain in the house. (Don't worry about changing the numbers on the right unless you really want to guess the average interest rate over the next two or three decades.)

The number you get will tell you what the mortgage rate has to drop to for you to reap optimal savings from refinancing.

For example: Someone in the 28 percent income-tax bracket with 25 years left on a \$250,000 mortgage with a 5.5 percent rate should wait until rates get to 4.55 percent before pulling the trigger.

One caveat: The calculator is only designed for fixed-rate mortgages, not variable ones.

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