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How Low Can Rates Go?

By VICKIE ELMER

IF your New Year's resolutions include buying a house or refinancing, the Federal Reserve has you covered. It has committed to keep long-term interest rates low through next year, so a 30-year [mortgage](#) will be pegged about where it is now — 4.32 percent in New York — at least through spring, said Frank E. Nothaft, the chief economist at Freddie Mac.

“Rates are very much at the bottom,” Mr. Nothaft said. But, he added, they may start inching up in the second half of the year. “If you're planning to refinance, do it sooner rather than later.”

In order to cash in fully on some of the lowest interest rates ever recorded, buyers and owners need to start taking steps now, experts say. Rather than look for a house you really want, they suggest first finding out how much money you can afford to borrow, and what you can do in the next three to six months to improve your creditworthiness.

“Sometimes it takes a few extra months to get your ducks in a row,” particularly if there are mistakes or blemishes on your credit report, said Gene Tricozzi, the president of Northern Funding Corporation, a mortgage brokerage in Clifton Park, N.Y. If your score is below 700, your mortgage interest rate could be a quarter to a half percentage point higher than for those with stronger scores, experts say.

Start by ordering copies of your [credit reports](#) and reviewing them for inaccuracies or disputes. Tracy Becker, the president of North Shore Advisory Inc., a credit restoration company in Tarrytown, N.Y., suggests doing this a year in advance, if possible, to give yourself ample time to fix any issues, like an inadvertently missed payment or an address error.

Do not close any credit accounts now; doing so can reduce your score by as much as

60 points, she said, adding that **banks** like to see two to four accounts in the applicant's name.

Once your credit score is established, identify two or three mortgage bankers or brokers whom you may want to work with. Ask friends, people in your religious or social circles, or your accountant for recommendations. Then do the **due diligence** on each candidate and meet with them to see who is the best fit.

Determine what your down payment and other out-of-pocket costs will be as you figure out what you can afford to buy. Use a mortgage calculator, or ask the mortgage officers to give you a range that would be comfortable.

Closing costs may be more difficult to estimate because they usually include prepaid real **estate taxes** and various fees for title **insurance**, mortgage taxes and more. Total closing costs in 2010 on a \$200,000 mortgage were \$3,843 in **Connecticut** and \$6,183 in New York state, according to research by **Bankrate.com** in June.

Those figures exclude association fees, prepaid items and state taxes, which in **New York City** and a few other places can run 1.9 percent of the **loan** value for the mortgage recording tax.

It is a good idea to discuss your plan to buy a home with a **financial planner** or accountant. Your tax adviser may be able to guide you on tax deductions and decisions for your 2011 return. Some mortgages, including those offered by the Federal Housing Administration and those made to self-employed individuals, require two years of tax returns.

In those cases, taxpayers may want to be "a little less aggressive" with deductions so the income figure looks stronger, said Matt Hackett, the underwriting manager of Equity Now, a direct mortgage lender based in New York..

Finally, keep an eye on those interest rates. Mr. Nothaft expects the 30-year fixed mortgage rate to end the year "well below 5 percent" — which could still mean a 0.75-point increase a year from now.