



Hey, house hunters: Price isn't everything

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For those of you prospective home buyers who have successfully waited out the price declines of the past two years, you may now be at the point where self-congratulations should cease.

Not because prices won't continue to decline. Many say that in some areas they probably will, at least a little bit more.

But interest rates are rising. And when you finance a big-ticket item -- such as a home -- over 30 years, that's a big deal.

Did you hear our esteemed Fed chairman, Ben Bernanke, during his visit to Chatham last week? It was curious, to say the least, to hear him say that the danger of the economy falling into a "substantial downturn" appears to have waned. Where is the evidence of that? It seems, then, that the only reason he would make such a statement would be to hint that it's time for the Fed to (at long last) attend to its primary purpose -- to stop inflation.

Right on queue, on Friday the government reported that inflation shot up 0.6 percent in May, the highest monthly advance in six months.

What else do you need? Folks, interest rates are going up soon. In fact, if you follow the mortgage market, you know that they already have.

Wait a minute, you might say. Doesn't the Fed only control short-term rates, which don't move in lock-

step with long-term rates? True. But there is certainly some tendency for long-term rates to move as short-term rates do, and two items that lead to higher long-term rates are inflation and big government deficits.

Few would argue that we don't have those in ample supply now.

Consider the following scenario:

Two young couples have waited patiently for homes to move into their price ranges for over a year. Let's assume the first, whom we'll call "Couple A," decided a month ago to take the plunge on a three-bedroom ranch in Tewksbury for \$300,000. They put 10 percent down and finance the rest (\$270,000) over 30 years at the going interest rate at the time, which was roughly 5.8 percent.

(Aside: Three years ago, this would have seemed like an incredibly stodgy way to finance a home. But alas, this is how the business works now.)

Couple A's monthly mortgage payment is thus \$1,584.23 (principal and interest only).

OK, fair enough. Now let's assume the second couple, whom we'll sagely label "Couple B," saw a nearly identical home on the same block for the same price. But Couple B was convinced they could get a better deal if they waited a bit longer.

Sure enough, last week they saw that similar three-bedroom ranch in Tewksbury for \$285,000. They pounced, and they felt godawful smart about it, too.

Couple B also plunks down 10 percent, in this case \$28,500, and takes out a 30-year mortgage. The going mortgage rate last week? It was 6.32 percent, according to Fannie Mae.

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Thus, Couple B's monthly payment is -- drum roll, please -- \$1,591.01.

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OK, Couple B was able to put down \$1,500 less and their monthly payment is less than seven bucks more. But over the course of 30 years, they will still pay more in total, although the difference is less than \$1,000.

But you see where this is going, right?

What if Couple B were to wait until the fall, when interest rates could well be 7 percent. Just for kicks, let's say the house they were eyeing remained on the market, and its price fell further, to \$275,000. Couple B puts their 10 percent down, finances the rest (now \$247,500) and the monthly payment becomes \$1,646.42.

Now we're up to a \$60-a-month increase in payments, even on a home that had declined in price.

Some of you under-30 types may say it's absurd to suggest that interest rates could rise to 7 percent. But ask somebody around 55 years of age what it was like to buy that first home in 1981 and work with an 18 percent mortgage rate. They'll tell you it was hell... and then they'll tell that they refinanced about nine times before Reagan left office.

Heck, as recently as 1997, when I bought my home the initial interest rate was 8 percent.

And nobody was batting an eyelash.

So if you've been sitting on the home-buying fence, thinking you're clever because home prices are still falling, the time has come to keep an eye on rates, too.

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