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Everyone Wants a Lower Price, But What About the Impact of Interest Rates?

When shopping for a home, the natural tendency of any buyer is to want to pay the lowest price possible. It's important to keep in mind, however, that the sales price is not the only factor that determines what the monthly payment will be. In fact, the impact of higher interest rates can easily nullify any benefit of waiting for a lower price.

Why Should I Rush to Buy?

While you may have heard discussions in the media about the decline of property values in many markets, the rate of decline appears to be stabilizing.

That being said, it would not be unreasonable for buyers to want to hold out for an additional decline of 10%, hoping to capture the best possible price. However, as property values have declined in many areas to 2003 levels or lower, waiting longer to pull the trigger could be a mistake. Many markets are reporting that lower property values have been bringing out investors and the result has been multiple offers on many properties. Properties priced correctly are not declining and, in fact, are creating a lot of interest.

Interest Rate Complacency

The problem is that many home buyers have been lulled into a sense of complacency because of extremely low interest rates. Since the Federal Reserve initiated its program of buying mortgage-backed securities, which control the rates people pay for their home loans, rates had been range bound, bouncing between 4.50% to 5.00% for a 30-year fixed-rate loan.

But buyers shouldn't be confused by this. These rates are artificially low! Historically, interest rates have been above 6.00%. And any rate obtained below this number is a great deal, especially on homes with price tags from 2003!

Markets are Unforgiving

The last two weeks of May showed just how unforgiving the markets can be for people who choose to procrastinate. In just five days, interest rates from many lenders increased anywhere from .50% to 1.00% as fixed-income investors demanded more for their money.

For anyone who was waiting for prices to drop even more, a 1.00% increase in interest rate would bring a higher monthly principal and interest payment on a home, even if the price of that same home had fallen an additional 10% in value.

If your clients are waiting for prices to fall even lower, be aware that while holding out for a lower price may help them win the battle, they could lose the war in terms of monthly payments and overall affordability. With the Federal Reserve scheduled to end its buying of mortgage-backed securities this year, rates only stand to go higher for those that wait. In fact, interest rates are already on the rise and could go higher from here.

Clock is Ticking on Free Money

If you have clients who are planning on purchasing their first home this year, be sure to let them know that they need to take possession before 12/01/2009 to be eligible for a tax credit of up to \$8,000. In a survey conducted in March by Move.com, nearly 50% of home buyers are currently unaware that this free money exists in the marketplace. And since over 50% of all buyers are first-timers in today's market, this could impact a lot of your clients.

If you have questions about this update, give us a call. I can show you how waiting for the lowest price could really cost your clients more in the long run.

Sincerely,
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