

What's the cost of waiting to buy?

Many people think it makes sense to wait for the market to drop in order to buy a home because they will save money on the sales price. While this may seem logical, it's really not in every environment. In fact, **we have already reached the bottom of the market from a monthly cost perspective.** What do I mean? While its true prices may continue to decline, **people generally don't consider what the long-term costs of financing are.** We've seen rates recently hit a 50 year historical low as a result of our current economic circumstances. We've also seen our administration spending unprecedented amounts of money in an attempt to stem the economic downfall. By creating trillions of dollars worth of debt, they are in essence devaluing our dollar. The debt is then sold off in the form of bonds. **The issue is there is so much debt to be absorbed that the price of the bonds has begun to drop making the yields rise in an effort to make them more attractive to investors. This has caused mortgage rates to start creeping up.**

We're already seeing signs of this. **In the last 2 months the average interest rate for a conforming 30 year fixed has risen 1%.** The chart below is the chart for the Fannie Mae 4.5% mortgage coupon. This instrument is what dictates the direction of fixed rate mortgages. The chart below shows the most recent 6 month history with the all-time loan being October 7, 2010. You can also see that starting in mid-November we start to see the beginning of the upward trend. This trend is expected to continue and rates are anticipated to be in the low 6's over the next few months or so.

Your clients need to be aware of this trend and understand that by waiting out the market, they are hurting themselves in the form of higher mortgage payments and greater long-term cost.



The table below makes some assumptions on both rates and values. You can clearly see if a buyer were to wait to purchase a home and the value declined over a period of time and rates move upward, which will happen as inflation becomes more of a factor, the home will ultimately cost them significantly more in the end. Even with a 10% further reduction in price they will still wind up paying more on a monthly basis because of the cost of borrowing the money. In addition, they also lose the tax break they will receive and the benefits associated with owning the home.

Time Value of Money - The Cost of Waiting to Buy			
The Cost of Waiting to Buy	Current Market	5% Price Reduction	10% Price Reduction
	Oct-10	Apr-11	Oct-11
Sale Price	\$300,000	\$285,000	\$270,000
Down Payment (amount)	\$ 60,000	\$ 57,000	\$ 54,000
Total Loan Amount	\$ 240,000	\$ 228,000	\$ 216,000
Loan to Value (LTV)	80.00%	80.00%	80.00%
Payments:			
Interest Rate	4.125%	5.125%	6.125%
Loan Term (in months)	360	360	360
P & I Payment	\$1,163.16	\$1,241.43	\$1,312.44
Total Mortgage Payments over 30 yr Term	\$ 418,737.37	\$ 446,914.91	\$ 472,477.96
Amount of Extra \$ in Finance Charges		\$ 28,177.54	\$ 53,740.59
Reduction in Sales Price		\$15,000.00	\$30,000.00
Net Savings/Loss by Waiting		\$ 13,177.54	\$ 23,740.59

Notice the payment increases even though the price decreases. So you can see there are several reasons why I say we have already hit the bottom. Affordability will decline, and even with lower values, the cost of home ownership will increase over time.

The interest rate in October was 4.125% for a 30 year fixed. The rate is now right around 5.125% today. The rate projections in the table above are speculative, but not outside the bounds of possibility. The bottom line is, NOW is the time to buy. These factors are critical for buyers to understand.