LAMORINDA WEEKLY Independent, locally owned and operated! www.lamorindaweekly.com 925-377-0977

Published September 30th, 2009

The High Cost of Waiting to Purchase is Proven in the Mathematics

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The media quoted the U.S. Federal Reserve (Fed) saying the Fed will not stop buying mortgage-backed securities in October as it originally planned, but will continue to buy through March 2010. But it is what they didn't say that is telling. The amount of funds will be stretched out from now through March. The Fed continuing to purchase loans initially sounded like a great idea. After analysis, however, if the budget stays neutral with the same dollars stretching through March, it will amount to one thing -- higher rates. The plan continues to keep the system moving but with less inventory of money on a monthly basis. So as the sputtering economy tries to lift its head upward with a lower dollar monthly inventory to lend for Fannie Mae to purchase, what do you think the effect on demand will be with limited supply? Econ #101 tells me rates will rise. Why? The increased demand on a smaller inventory of money. By spring 2010 don't be surprised if rates are riding around 6.125% - 6.625%. We won't notice the increase because it will come in forms of very little monthly bumps, candles ticking upward to break 6.000% somewhere in the first quarter.

Do you want to wait six months for a $25,000 decrease in housing? If you have to pay a point higher in rate do you know how much more interest, on the average, you will pay over thirty years for an $800K home? $153,600.00.

My answer is spend more now with a good rate, and pay less over time. In two years if we hit a high inflation rate to overcome this depression you will be glad you bought or refinanced in 2009. Are you planning on your home equity in the next few years for college funds like so many do? It is cheaper to borrow today at 5% from your home than next year and still less than Sallie Mae (currently at 6 or 8.5% depending on your qualifications).

Over the last few years we have seen a tremendous swing in the housing market; a market we all took for granted for many years is now struggling through a correctional phase. Economists are writhing to predict the end of the cycle because they really just don't know and are afraid to admit it for the sake of their reputation. What was once a "no brainer" decision to invest in real estate now has many potential homeowners, and current homeowners who are considering refinancing a home, sitting on the fence -- waiting and watching for things to turn around.

Is this the right decision? Maybe. Is this the wrong decision? Maybe. There is no guarantee in any investment, but one thing we do know for certain is that if history tells the future then my money is in real estate. Historical data from Fannie Mae concludes that real estate in the USA has increased at an average rate of 4-5% over the last 30 years. Note that is an average. Some years we have seen large swings up and others large swings down, but in the end the curve has been in the positive.

The high cost of waiting is proven in the mathematics. While you could be holding out for property values to decline, you could end up paying much higher costs in the form of interest based on the Federal government's impending policy changes to our country's interest rates. So while you may be able to wait six months and possibly get your home for 20-30K less, a 1% or higher interest rate on a 800K home could cost you upwards of 200K over the life of a 30 yr fixed mortgage. So what are you waiting for -- to spend more money over thirty years, or buy now and spend less?

Also, by waiting a year, you are losing the tax deductibility of homeownership which could mean thousands of dollars depending on your tax bracket, as well as the notion of spending another year living somewhere you would rather not be.

Our cost of waiting analysis will help you to analyze your own numbers and make an informed decision if now is the right time for you to buy.

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