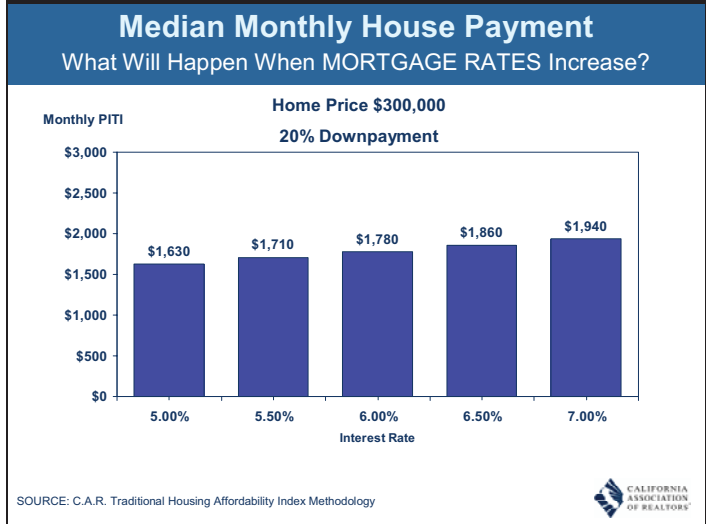


# Higher Mortgage Rates or Changes in Prices: The Great Trade-Off

At the current statewide median price of \$297,500 for October and mortgage rates in the five percent range, how will higher mortgage rates affect your monthly payment? What about price fluctuations? How will this trade-off impact buyer's affordability?

## In this corner...Higher Mortgage Rates!



In the last several months, the median home price has hovered just below \$300,000. For the purpose of this analysis, a home price of \$300,000 was used as well as a 20 percent downpayment. With those underlying assumptions the monthly payment including taxes & insurance (PITI) at the current mortgage rate of five percent equals \$1,630. What will happen to the PITI if interest rates rise to 6 percent or higher? At a 6 percent mortgage rate, the monthly PITI would go up by \$150 to \$1,780 all else equal. If the rate were to go up to 7 percent, the PITI would shoot up by more than \$300 (all else is held constant). Based on this analysis, the general rule of thumb is that a one half of a percentage point (0.50 percent) rise in the mortgage rate will increase the monthly payment by about \$80. Generally, the monthly payment is much more sensitive to changes in mortgage rates than to price fluctuations.

## In this corner...Changes in Home Prices

	Home Price	PITI @ 5% Interest Rate	PITI @ 6% Interest Rate	PITI @ 7% Interest Rate
15% Increase in the Price	\$ 345,000	\$ 1,880	\$ 2,050	\$ 2,230
10% Increase in the Price	\$ 330,000	\$ 1,800	\$ 1,960	\$ 2,140
5% Increase in the Price	\$ 315,000	\$ 1,720	\$ 1,870	\$ 2,040
<b>Home Price of \$300,000</b>	<b>\$ 300,000</b>	<b>\$ 1,630</b>	<b>\$ 1,780</b>	<b>\$ 1,940</b>
5% Decrease in the Price	\$ 285,000	\$ 1,550	\$ 1,690	\$ 1,840
10% Decrease in the Price	\$ 270,000	\$ 1,470	\$ 1,610	\$ 1,750
15% Decrease in the Price	\$ 255,000	\$ 1,390	\$ 1,520	\$ 1,650

What happens to the monthly PITI if the price rises or falls by 5 percent? Well, a similar rule of thumb applies in this case: holding everything else the same, a 5 percent rise in the price of a home will tack on about \$80 to the monthly payment. Suppose instead that there is a 5 percent decline in the median price (\$285,000),

and a 1 percent rise in the mortgage rate to 6 percent. The monthly PITI will go up by \$60 to a mortgage payment of \$1,690. The effect of the decline in price was more than offset by the effect of the increase in interest rates, resulting in a higher monthly payment. The bottom line is that if we expect further fluctuations in the home prices, fluctuations in mortgage rates can be a deal breaker for some households. The trick is to get the right house at the right price with the right mortgage rate. Along with the recently extended and EXPANDED home buyer tax credit of up to \$8,000 for qualifying first-time buyers and up to \$6,500 for qualifying existing home owners, it is an opportune time to buy a home. Please contact me today for more information.

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