

Consider "Moving" Quickly on Your New Home Purchase. Here Is Why.

You want to buy a house for \$625,000, and you can make a down payment of \$125,000

(20 percent). What happens if you wait too long and mortgage rates go up by the time you secure financing?

The cost of your home could rise by \$106,920.

In today's real estate market, we often think the benefit of waiting, is that the price of our dream home will decline even more. The home price is often the major factor in the decision whether to make a purchase. It is also important to factor in the cost of financing, as it very much affects what you ultimately pay for your home.

Freddie Mac, Fannie Mae and the American Bankers Association project rates will go higher starting this year. They predict the 30-year fixed rate will rise from 4 percent to 5 percent in the next 12 months. One should consider that rates could even go higher than 5 percent if we enter a period of inflation, or the Federal Reserve discontinues its purchase of long term bonds, which has kept rates low.

Here is an example of what just a one percent change in mortgage rates can do to the cost of buying a home.

Take into account that today's mortgage rate on a 30-year loan is approximately 4 percent. If you wait and mortgage rates increase by 1 percent, and the value of the home does not change, then the cost of buying that home has increased by \$106,920.

If you were to wait and interest rates increase by 2 percent, the cost of buying your home would increase by \$219,870.

See the chart below for the details. (It applies to the \$625,000 original purchase price.)

Mortgage Rate	Monthly Payment	Total Payments (30 years)	Total Cost of Home (including down payment)	Difference in in cost of home with a 1% change in interest rates.
4%	\$2,387.00	\$859,320	\$984,320	\$106,920
5%	\$2,684.00	\$966,240	\$1,091,240	\$112,950
6%	\$2,997.75	\$1,079,190	\$1,204,190	--

So, if you are thinking of buying a home, be sure to factor in the cost of financing along with your purchase price. And think about “moving” quickly too.

The views expressed in this article are the opinions of the author, and should not be interpreted as individualized investment advice; investment objectives, risk tolerances, and the financial situation of individual investors may vary. Please consult your financial and tax advisors before investing.