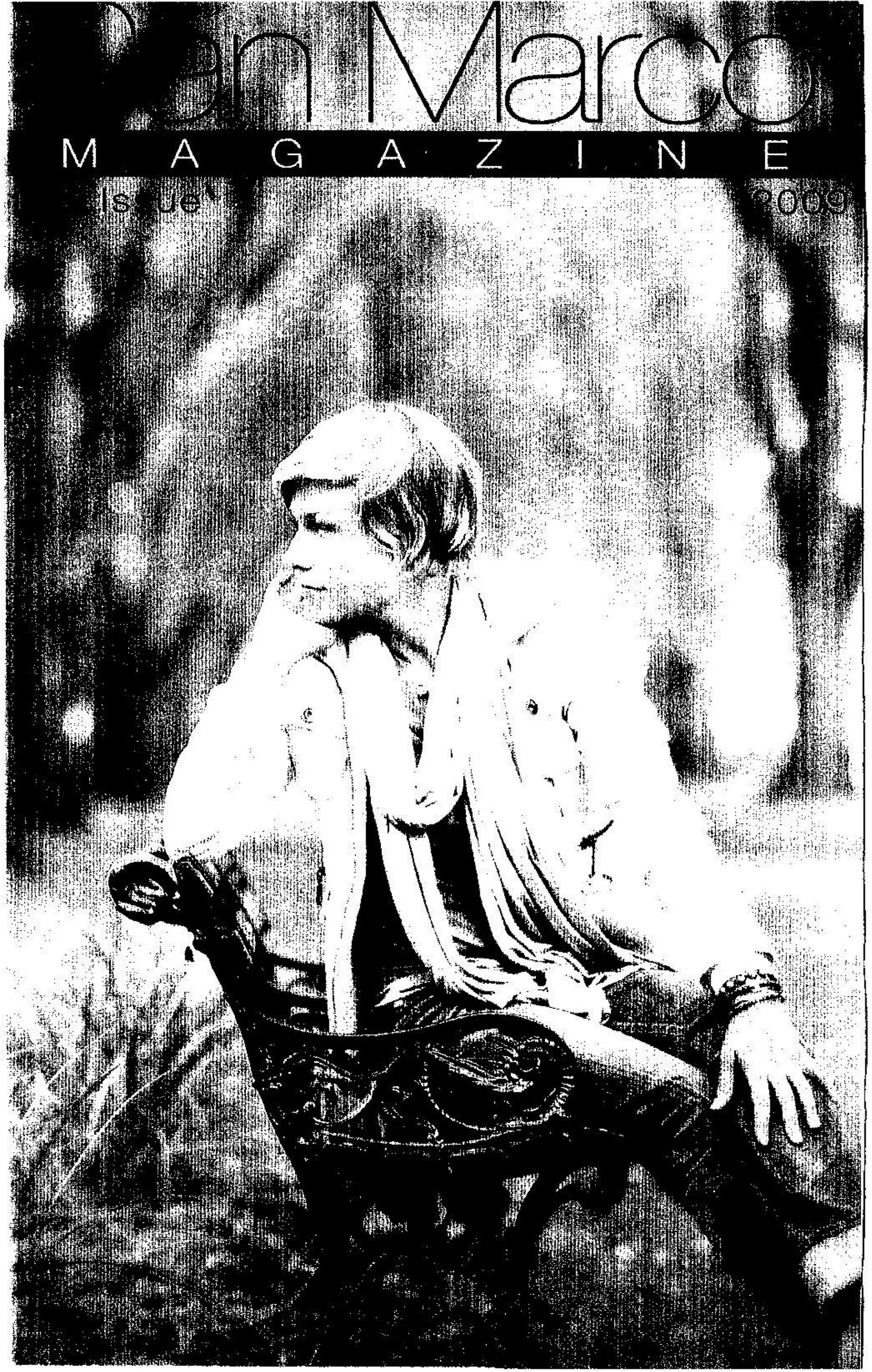

Something good usually comes out of a difficult (in this case-Economic) situation.

In This Recession it's Interest Rates

by Steve Hyers

One of the things that convinced me that I may have the ability to become a financial planner a couple of decades ago was learning about, and applying principals of, the time-value of money. By that I mean that there is a potentially HUGE difference between the amounts of savings that result from choosing a shorter-term loan.

As a newly minted ChFC in the 1990's and a loan officer for one of the major national banks with branches here in Jacksonville, I became well acquainted with the difference in the amount of interest that my clients paid when they took different durations on loans. Though a loan with a shorter term requires paying a larger monthly payment, the difference in the amount of interest paid on loans can be, and usually is, significant. In 1992 I was in a position to apply the principals learned as a ChFC. My wife and I had the good fortune to buy our second home and, like most folks, we considered taking out a 30 year mortgage to minimize our monthly payment. In addition to the lower payment, there was also the suggestion that home-buyers should not be pre-occupied with amount of interest rates they pay, as you deduct the interest. That is true, but the deduction applies ONLY to the extent of your tax-bracket (consult your CPA for your particular circumstances). The amount you put down on your home is also paramount. In most cases, if you put at least 20% down on your home, you should not have to pay primary mortgage insurance (PMI) also. As suggested by David Marovich, (a Business Loan Officer at Florida Telco Credit Union) in a recent conversation the interest rate and closing costs are also important. David agrees that even though the timing of home-purchases are dictated many times by personal circumstances (i.e. – weddings, divorces, additional kids in the family), the ideal time to take out a loan is when interest rates are on the lower end of the cycle – such as the current environment we're in.

Getting back to my personal circumstances, my wife and I ended up purchasing our home in San Marco allowing us to be located near both our businesses, our kids schools (and of late) preserving gas. Our new home would be located just a matter of a few blocks from our previous home in San Marco. What we did different from many folks though, is take out a 15 year mortgage and put a larger down-payment on the purchase. We had invested and saved over several years and combined that with proceeds from the sale of our previous residence to make a 20% down-payment. Interest rates at that time we're around 7% (at that time in history a good rate). By making extra payments we ended up paying off our mortgage in eight years. The time-value of money principal allowed us to save thousands of dollars on our loan.

The point is, though the economy is difficult and the recession has been extended (primarily by the collapse of Fannie Mae and Freddie Mac in this ex-bank-officers opinion), interest rates are still near an all-time low. If you are just starting out as an adult, and have the ability to do so, buying a home today allows many folks (particularly with good credit) the ability to take out a 30 year mortgage at a rate between 5% and 6% (Wall Street Journal 8/6/09) at the time of the writing of this article. If you can make the payment, a 15 year mortgage with at least 20% down (to avoid PMI) is available for even less. Mortgages are most people's largest obligation. If done right, you can put yourself in position to do other things – like opening your own business, buying more capital-gains assets (additional real-estate and/or securities) that potentially place you in a better financial position later in life. Even in this tough economic environment, there are reasons for optimism...................

The information in this article is intended as general information only and specific advice may be different for individual circumstances and situations. To determine which mortgage (or investments) may be appropriate for you or for mortgage services in general, consult a qualified loan officer or financial advisor prior to making any decision. All performance referenced is historical and is no guarantee of future results.

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