06/20/2007

Today’s Market: Good News and Bad News for Homebuyers

If you are a prospective homebuyer in the current housing market, congratulations! It’s a buyer’s market. And condolences! Mortgage interest rates have risen to record highs for the year. Your quest is to try to find a good enough deal on a home to offset the higher cost of loans.

So here’s more about the good news: fortunately for buyers about 42 percent of the major housing markets across the country are seeing declines in home prices, and several of those markets are likely to see double-digit percentage decreases over the next five years. Similarly, the National Association of Realtors is predicting that home prices nationwide will drop by 1 percent by the end of 2007, the first time they have predicted a year-over-year drop in forty years.

The current oversupply of homes on the market is also good news for homebuyers. “(Housing) inventories are the best predictor of the future direction of a housing market, said Mark Keisel, an executive vice president with investment firm PIMCO, in an interview. “There are 3.7 million existing homes for sale in the U.S., which is 20 percent above where it was last year. Inventories are not going down, the number of vacant homes for sale has soared, and you have concessions being handed out by home builders.”

Bargaining power for buyers is at an all-time high right now in many markets as sellers get desperate to sell. Use that power to your advantage – ask the seller to pay closing costs, or to participate in a down payment assistance program. You may find that these benefits along with a discounted home price might save you thousands of dollars in your home purchase.

Now for the less good news: interest rates are on the rise, making your new mortgage loan for the house much more costly. And don’t expect to see a drop in interest rates any time soon. Although the housing market is slumping, the rest of the U.S. economy has been holding up well, increasing fears of inflation. The Federal Reserve appears more concerned with keeping inflation rates down than with bolstering the flagging housing market, making interest rate decreases unlikely for the foreseeable future.

Here’s an example of how interest rate changes in the past few weeks have affected the price of a home mortgage: During the past week, the average interest rate on a 30-year fixed rate mortgage increased from 6.53 percent to 6.74 percent. That means a $200,000 30-year fixed loan will now cost you about $1296 a month, compared with $1268 a month if you had gotten a loan a week ago. That is a difference of $28 and over the course of the loan you will end up paying an extra $10,000 in interest at the new higher rate. Of course, because of the seller incentives you may be able to save that much upfront, causing the lowered home prices and the higher interest rates to cancel each other out. You may also want to consider getting a rate-lock once you apply for a home loan to make sure you don’t get stuck with an even higher rate a month down the road!