<u>My 1981 Mortgage Payment Tables:</u> They Help Explain Why <u>Now May Be the Opportunity of a Lifetime</u> for Homebuyers

By Steve Seawright

If you've read my previous blog postings at http://seawrighthomes.blogspot.com/ you'd have noticed that a number of them deal with the subject of home "value," and how it is the product of much more than a home's "initial purchase cost." A *high performance* home, though costing initially more than its opposite (one of low-performance), typically will prove to be the best "value" because the *high performance home* will produce the lowest "total cost of ownership" over the planned period of ownership.

To simplify my point I did not mention how mortgage rates will vary depending on the time of purchase, and how the effect of that variability can have a significant impact on "value" as measured by the concept of "total cost of ownership." Therefore, the purpose of THIS post is to address the role of interest rates on housing "value," making a re-discovered 1981 Mortgage Payment Table of singular interest.

When skimming the 1981 mortgage payment tabulations, one can not help but be struck by the range of interest rates for which monthly payments and amortization schedules were presented. Totally missing was any interest rate below 10%, with data actually being provided only for interest rates spanning from 10% to 20%. It was as if the financial institution publishing the payment tables concluded that mortgage rates never again would be lower than 10%; so, why waste pages and ink on information that no one ever again would have reason to consult?

Throughout much of the 1980s, the need to look for information related to interest rates lower than 10% did not exist. But now…how the cycle has turned and note the term, "cycle!" If mortgage payment tables were to be re-produced today, and not obtained so readily off the Internet, such a booklet likely would cover rates spanning only from 2% to 10%. The rare publisher of interest calculations who experienced 1981 interest rates, though, might have the wisdom to cover tabulations for interest rates ranging into the high teens.

Our unfortunate propensity to ignore history and the predictable repetition of economic cycles (and we are somewhere off the bottom of a cycle now) makes for poor economic choices. And, if one is unaware of how much the mortgage interest rate applicable to a particular home purchase affects the "total cost of ownership/value" of that home, the resulting home value for the home buyer becomes a matter of random chance.

Consider this example of possible changes in loan amount, interest rate and monthly payment on two 30-year fixed rate mortgages as follows:

Scenario	Loan Amount	Interest Rate	Monthly Loan Payment
1	$350,000	4.4%	$1,752
2	$315,000	5.4%	$1,768

Scenario 1 reflects monthly P & I on a $350,000 mortgage at the currently prevailing, 30-year fixed rate of 4.4%. Scenario 2 reflects the higher $1,768 P & I payment that would result if home prices and the related mortgage amount were to decline by an additional 10%, but the mortgage interest rate were only 1% higher, at 5.4% instead of 4.4%. What Scenario 2 shows is that combining a 10% reduction in loan amount with an interest rate increase that is only 1% than the current 30-year fixed interest rate and results in a home that costs $16/month more than its Scenario 1 alternative, acquired at a greater cost, but lower interest rate. Pick an interest rate 2% higher, 3% higher, etc. for the lower loan amount and the comparison only becomes worse for the home having the lower loan amount, but higher mortgage interest rate.

While the quip likely is true that, “If you laid all the economists in the world end-to-end, they never would reach a conclusion,” there is unprecedented unanimity within their ranks that interest rates must, and inevitably will, rise. Among the principal reasons are: politically driven economic irresponsibility at home and abroad; the unprecedented downgrading of U.S. debt credit worthiness by Standard & Poor’s; and the fact that too much money has been printed in our country and across the globe in a failing effort to maintain an artificial, low interest rate environment that credit markets no longer appear prepared to support.

Can interest rates fall further? Anything is theoretically possible, but only 4.3 percentage points stand between today’s mortgage rate and zero. By contrast, only the market will limit how high interest rates might rise, with the mortgage peaks of 1981 foretelling the potential for upward movement that already has happened before.

What does this discourse, prompted by a 1981 Mortgage Payment Table, mean for you? It means that between the variables of a home’s initial sales price, *high performance* home characteristics (or lack thereof) and interest rates, a low interest rate has the greatest potential for impacting, for better or worse, the “total cost of ownership/value.” It also means that there is considerably more pressure for and likelihood of steadily rising interest rates, which inevitably must result in there being a higher “total cost of ownership” in store for those who either are unable or who choose not to act on today‘s historically low combination of mortgage rates and home prices.

For those who end up waiting, whether by choice or ignorance, and gamble to see if both home prices and interest rates will decline further, one must hope that the price paid for a poorly considered wager will not be too high. For those who understand that today’s low home prices and mortgage rates favor the astute home buyer, congratulations! In acting on that knowledge you will have achieved the “lowest total cost of ownership” for your next home and that is the true measure of having obtained the best, optimum value.

If you understand what is important about interest rates in determining true housing value, you will recognize that now, today, will prove to have been the opportunity of a lifetime for any current generation to own their next home and be supremely confident that the present combination of home prices and interest rates will result in the lowest total cost of ownership, guaranteeing an unbeatable housing value.