

Rising interest rates no cause of concern to average buyer

by Ilyce_Glink

These days, the international finance community spends a lot of time anticipating what the Federal Reserve Bank is going to do with regard to interest rates. Every six weeks, the watch begins. Pundits make predictions. Financial columnists hang on every word of Federal Reserve Chair Ben Bernanke. And just look what happened when Alan Greenspan uttered the word "recession." That's a lot of power. But how does it play on Main Street? Fortunately, most people who buy real estate don't have to worry whether the Federal Funds rate is going to rise, fall or stay steady in the next six weeks. And why should they? Only a very few folks will not be able to qualify for a mortgage if mortgage interest rates rise or fall by a quarter of a percent. You're talking an extra \$50 per month on a \$100,000 loan. But some things do matter, including the dramatic tightening on sub-prime credit. As sub-prime lenders cut back on their lending or cease making loans altogether, those with less than perfect credit have more to worry about. Here's a look at some of the issues at play that might affect the mortgage you choose and how much you pay for it: -How good is your credit? Most Americans have Grade A credit, which is generally considered to be a credit score of 720 or above. (The top credit bracket at MyFico.com is 760 and above.) But an increasing number of folks have fallen into the Alt-A category, a middle grouping of borrowers who aren't really sub-prime but don't have Grade A credit. Life has changed the most for Alt-A and sub-prime borrowers in recent weeks, as lenders have tightened lending criteria and yanked loans that they committed to late in the game - in some cases, loans have been cancelled the day before closing. If you are six months to a year out from applying for a mortgage or refinancing of your existing mortgage, now is the time to examine your credit. Go to www.annualcreditreport.com and download a free copy of your credit history from each of the three major credit reporting bureaus, Experian, Equifax and TransUnion. Pay an extra \$7 and get a credit score from Equifax. If you've already used up your free reports from AnnualCreditReport.com, then go to MyFico and purchase a three-in-one credit history and score for \$47.85. (Save your money and skip the Suze Orman upgrade.) Your credit history and score will come with instructions on what you have to do to raise your score. The goal is to raise your credit score as high as possible, preferably above 720. -How long do you plan to stay in this house or keep this mortgage? Much more important than whether the Federal Reserve Bank raises or lowers its Federal Funds rate is the question of your timing. If you're planning to stay in your house for the next 20 to 30 years, or until your children are grown, long-term interest rates look pretty good. You can get a 30-year fixed rate loan for around 6 percent, with relatively few fees. If you're willing to pay a few bucks more, you can get a 30-year fixed rate loan for less than 6 percent. Fifteen-year fixed rate mortgages can be had for around 5.5 percent. These are "keeper" interest rates. While interest rates may dip a bit here or there, these are the kind of interest rates that keep housing costs affordable. Unless you have some sort of financial disaster in your life like a death or job loss, these kinds of loans are the ones you'll enjoy paying off. But if you're not planning to stay in this house, or if you're planning to keep the loan only a couple of years until you refinance, then there are other loan choices that may be a better fit. A 5/1 adjustable rate mortgage (ARM) would give you a slightly lower interest rate that would be fixed for the first 5 years before adjusting to a one-year ARM. If you're trying to conserve cash, an interest-only loan (where you only pay the interest due each month without any payment to principal) might work on a short-term basis. But be careful about using this loan if you're buying in an unsteady real estate market. If the market price takes a dip and you haven't been putting anything toward the principal loan balance, you could easily find yourself underwater with your mortgage - that is, owing more on the mortgage than the house is worth. -Do you have cash for your down payment? In January 2007, you could easily finance your purchase with a 100 percent loan. Now, many lenders (especially those doing sub-prime loans) have pulled back from making loans without a down payment. If you don't have 5 or 10 percent to put down on your property, expect to see your interest rates, points and fees rise. You might also want to try an FHA loan. These federally backed mortgages allow you to buy a home with as little as 3 percent down. Plus, they offer loans that stretch typical debt-to-income ratios and allow those with less than perfect credit to buy. © 2007 Real Estate Matters - distributed by TMS