

# It's possible to finance in face of inflation

Homebuyers can use new financing techniques to get relief from high interest rates, high down payments, and other home financing problems, according to University of Michigan Professor Karl G. Pearson.

Pearson, a U-M professor of business administration and director of real estate education in the Graduate School of Busi-

ness Administration, described a variety of mortgage and financing strategies.

"For young couples, unable to stretch their incomes to cover the regular monthly payments, there is the graduated mortgage plan," he said. "This starts off with modest monthly payments — consistent with modest incomes — and advances the pay-

ments to the regular amount over a period of years."

On a medium priced home, for example, monthly payments might start at \$318 for the first year and increase in each of the next five years to a continuing level of \$457.

"MONTHLY PAYMENTS may also be cut down," Pearson continued, "by persuading the lender to extend the maturity of the mortgage loan. If the maturity were extended to 40 years, instead of the usual 30 years, this would result in a smaller amount in the monthly payment to apply to principal. True enough, the interest for the full period would be greater, but most borrowers would not feel this, for mortgages are usually refinanced in less than 10 years."

In using a "split mortgage" to cut down on monthly payments, the U-M authority said, a buyer obtains a mortgage on the structure for the period represented by its life expectancy, but takes out a long-term lease for the land for this period.

Pearson suggested that home buyers with insufficient down payment money might secure a loan from their life insurance company, based on the cash surrender value of their policy. "Your interest rate is specified in the policy. On an older policy, the interest rate may be as low as 3 percent. On recent policies the rate may be as high as 8 percent, which is still below market interest rates."

THE LOAN remains in effect as long as you wish. If you default on interest, this is added to the principal of the loan. If you die before repaying the loan, the amount still owed is deducted from the insurance proceeds."

In states with interest ceilings below prevailing rates — 23 states with 50 percent of the population restrict home mortgage loans to a maximum interest rate of 10 percent or less — many would-be borrowers circumvent the problem by paying a com-

"They know that the proven winner in the investment derby stakes is a home. The average new home price has gone up 81 percent in the last five years, as against a 47 percent increase in the cost of living."

— Prof. Karl G. Pearson

mitment fee to their lender in return for securing a loan at this reduced ceiling, Pearson explained.

"If your pension fund approves," he added, "you may get a loan for your down payment based on your vested interest in the fund. This enables one to buy today's home, based on tomorrow's pension."

Pearson noted that the old rule of thumb said that one should not exceed one-third of income for housing expenses — mortgage payments, taxes, insurance and utilities. With housing expenses rising, he added, it is now estimated that one-third of homeowners are allocating more than 40 percent of income to them.

"WHY HAVE the prices of homes been reaching all-time highs? Because the costs of land, labor, materials, and interest have never been higher. Because more would-be buyers than ever before are getting into the act, buying now before the price goes up more, providing more competition to buy houses coming on market, and driving up the price."

Should would-be buyers wait for home prices to come down? "You will wait in vain," Pearson said. "The costs of land, labor, and materials are not going to come down. If you keep on waiting, home prices will rise so much in the interim as to wipe out your potential savings, and down payments will be even higher than they are today."

"The home-buying spree will last just as long as buyers continue to see evidence that home prices are still going up."

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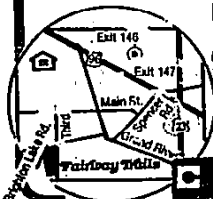


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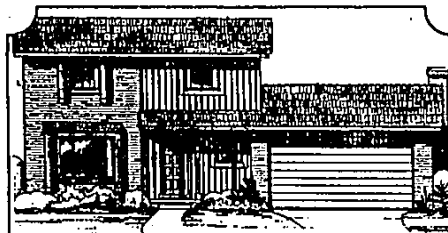


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