

Look for rollover mortgage to perk home sales

The fixed-rate long-term mortgage, the mainstay of home financing, is now on the decline, while a rollover mortgage, where interest fluctuates, will be the mortgage of the future.

That's the prediction of Karl Pearson, University of Michigan real estate authority and professor emeritus of business administration.

Dr. Pearson explained that the "fixed-rate, long-term loan does not fit in these times of inflation and volatile money markets. It does not enable the lender to raise interest rates so as to keep pace with inflation. Nor does it enable the borrower to benefit from declining rates, should the money market fall.

"It will be succeeded by the rollover mortgage, in which the maturity is fixed, but the interest rate varies up and down in accordance with a reference index.

"The borrower signs a three- to five-year note, secured by a long term mortgage. Interest changes, based on

money market factors, are limited to one-half of 1 percent a year, with a 5 percent ceiling, up or down, for the life of the mortgage."

THIS TYPE of mortgage, Pearson said, "will enable savings and loan associations to survive in the face of the higher interest charges they have to pay to attract deposits, and they will be more inclined to make mortgage loans available. The rollover mortgage will thereby ease the tight money situation, and lessen the impact of the current housing slump."

Pearson noted that the potential homebuyer, confronted with double-digit inflation, double-digit interest rates, and soaring housing prices, has become ultra-cautious about making the investment required in a home, an attitude which has led to the current recession in housing.

The U-M real estate authority said that the rollover mortgage will provide the credit needed for the large housing markets in the years ahead.

He estimated that the 1980s will see 41 million Americans added to the prime home-buying group in the 25 to 35 age range — a surge that will raise the production of new housing units needed to an average of two million per year, in contrast to the estimated production of only 1.1 million units in 1980.

"THE YEAR 1980 will see a new low in unsubsidized apartment house construction. Apartment houses are no longer an attractive investment. Rents fail to keep pace with operating expenses and increases in property taxes.

"Apartment house investors are discouraged by rent controls, tenant unions and attendant demonstrations and rent strikes, and rental laws with a pro-tenant bias. These factors also deter financial institutions from providing financing for apartment house investments."

Until recently there has been a surge of conversions of apartment houses to condominiums, Pearson said, "but

the condominium market has likewise been hit by the housing slump, and some units now stand idle. Also apartment house tenants have so hotly objected to the conversions that moratoria have been imposed in some areas."

He mentioned tax shelters that are becoming increasingly popular with real estate investors — the recycling of certified historic structures and the remodeling of income-producing structures such as office buildings. Such tax shelters, he explained, are preferable to tax deductions, which merely lessen the amount of income tax subject to taxation.

PEARSON said that cities and counties will consider adopting inclusionary zoning in the years ahead. Under this plan, the developer agrees to reserve a portion of the development for housing affordable by low- and moderate-income groups. In return, the developer gets from the city or county a density bonus and other incentives."

Edison asking 'record' rate hikes

Detroit Edison Co.'s request for a rate increase is "the largest amount ever requested" by the southeast Michigan electric utility, said its chief financial officer.

Ernest L. Gove Jr. said Edison is asking the Michigan Public Service Commission for rate hikes that would yield \$463 million more revenue in three steps over two years.

To the average electric customer, the rate hikes, if granted by MPSC, would cost per month:

- \$2.66 in 1980, a 9.7 percent increase over the current average of \$239.99.
- \$2.66 on Jan. 1, 1981, an 8.9 percent increase over the then-current \$32.65.
- \$2.34 in mid-1981, a 7.2 percent increase over the then-current \$34.99, bringing the monthly average to a total of \$37.33.

GOVE SAID general inflation and high interest rates have had a heavy impact on Detroit Edison, a capital-intensive firm which borrows heavily for new investment funds.

In the 12 months ended in last month, Edison earned \$1.67 per common

share, down from the 1979 earnings of \$1.90 and 1978's level of \$1.76.

The average return on common equity was 8.76 percent at the end of March 1980 compared to 9.91 percent in 1979 and 9.16 percent in 1978.

But Gove said Edison is seeking to lighten the homeowner burden with two other changes.

One is a new "lifeline" rate for low-income customers. The other is to extend its senior citizens rate to persons age 62 instead of the current age 65. Some 75,000 more customers would be eligible, Gove said.

DESPITE inflation, Gove said, electricity is still taking the same proportion of the residential customer's budget in 1979 as it did in 1959—about 1.5 percent.

This occurred "despite the use of almost twice as much electricity," the board vice chairman added.

He said the cost of electricity rose 6.7 percent for the average residence last year while costs were increasing even faster. He did not immediately provide cost increase figures.

OCCH honors area students

Oakland Community College will recognize 11 students for academic excellence at the Orchard Ridge Campus spring commencement Thursday, June 12.

Recipients of \$100 awards include Eileen Cheek of Farmington Hills, Raquel McCown of Southfield, Lory Reinhardt-Valdez of Farmington, Ed

Wasachlo of Southfield, Richard Smith of Birmingham, Brian Ernest of Keego Harbor and Donald Palmer of West Bloomfield.

The scholarship awards are provided by the campus academic senate and from the Ray Semicus and Larry O'Keefe scholarship funds.

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This may be the most important person you will ever talk to about your child.

Dr. Lendon Smith is a leading authority on children's health and nutrition. If you have any questions about your child's diet and health, you should be at iBrowse Monday night, May 5th, to hear him speak and get a copy of his new book, *Feed Your Kids Right* (Delta, \$4.95).

Dr. Smith blazed the trail a few years back in discovering the imbalances that the typical modern diet brought about in the child's body and the insidious health problems that could make life so difficult for both child and parents. His newest book brings together his most recent discoveries on nutrition and presents a complete, yet easy-to-follow program that insures your child's physical and mental well-being from infancy through adolescence. A iBrowse, Dr. Smith will

discuss the core of his program, the "Prevention Diet" and will show you how illness, hyperactivity, and even stress can be prevented if your child eats right.

If you've seen Dr. Smith on television or read his earlier books, *Improving Your Child's Behavior*, *Chemistry*, *The Children's Doctor*, and *The Encyclopedia of Baby and Child Care*, you'll know that he is a friendly, compassionate man who creates a wonderful rapport with people concerned with what is best for kids. You'll love to talk with him, too, and you can, this Monday night, from 8:00 to 10:00 p.m. at iBrowse.

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