

Interest-rate figures deceiving

By Tim Richard
staff writer

Realtors are changing their tune, even arguing with the Wall Street Journal. "We've talked too much about the investment side of housing. You buy a home to live in," said Richard Elsea, president of Real Estate One, Inc., after a withering blast at the daily business paper's article on seller-financed housing sales. Elsea and other managers of the Farmington Hills-based real estate firm — the state's, and one of the nation's, largest — spoke at a luncheon in the Detroit Press Club. They contended that mere numbers, such as high mortgage interest rates, fail to tell the better side of what's going on in the housing market.

While mortgage rates are now a record 17 percent, Elsea said, "Almost no one is paying 17 percent." The actual average interest rate buyers were paying in July was more like 11.5 percent, he said.

THE JOURNAL on Aug. 7 reported on the negative side of what real estate people call "creative financing" in the tight money market.

The Journal's example cited an Illinois man who "reluctantly agreed last month to help finance the sale of his own house by making a below-market-rate five-year \$40,000 loan to any buyer."

The seller could have invested his \$40,000 in the money market and, in five years, would earn \$10,000 to \$15,000 more than he earned by selling his house on a land contract.

The reasoning works like this: The seller agrees to let the buyer purchase on a land contract for \$40,000 for five years at 12 percent. The seller could invest his \$40,000 elsewhere at 17 percent and earn \$2,000 more per year. In five years, he

would have earned \$10,000 more than he earned by selling his house on land contract.

Under Michigan's usury law, the maximum a seller may charge under land contract is 11 percent. Land contracts are a form of seller financing whereby the purchaser agrees to pay the seller stipulated payments until the purchase price is met. The seller retains legal title to the property until the final contract payment is made.

The Fortune magazine edition of Aug. 24 makes much the same point in an article headlined "It May Be Time to Rent." A.F. Ebbar's article adds:

"What's more, reported selling prices don't reflect the discounts sellers give when they take back mortgages at below-market rates. If the seller lends money for less than he could get by investing in bonds, or less than he'll have to pay a bank for a mortgage on his new home, it amounts to the same thing as accepting a lower price."

ELSEA CALLED it "an example of somebody proving they can add and subtract with a calculator."

"The assumption is weak that one can invest (in bonds or the money market) at 17 percent forever. The average yield is more like 12 1/2 percent."

"The average person who gets his money out of his house doesn't put it in 17 percent investments. He probably invests in another home."

"That owner may well give him the same (land contract) concession."

"It's an old rule of thumb that if you buy and sell in the same market, you come out the same."

"His (the seller's) primary concern is to sell his home. I doubt very much if he actually lost money" on his investment.

REAL ESTATE One in July reported 207 sales

transactions, eight for cash and 199 involving some kind of loan to the buyer.

Only one buyer borrowed at the full 17 percent mortgage rate, said Elsea, and that was the only 17 percent rate anyone paid in four months. Yet persons reading or hearing national news accounts are given the impression that's the going rate, he said.

His firm's average buyer paid 11.49 percent on whatever loan he or she obtained. The average monthly payment was nearly \$618. Here is where 199 buyers got their loans:

- 44.4 percent by land contracts. Two years ago, the typical land contract was very short term — 90 days to two years. Today, said Michael Bartlett, vice president and general sales manager for the five-county metropolitan area, the loans run for five to 10 years.

- 27.5 percent by assumptions, where the buyer took over the seller's loan.

- 15.5 percent by conventional mortgages.

- 11 percent by FHA mortgages.

- 3 percent by VA mortgages.

The Western Wayne Oakland County Board of Realtors (WWOCBR) last week reported similar financial figures: 48 percent by land contract, 26 percent by mortgage assumption and 17 percent by conventional mortgage.

AVERAGE sale price was \$63,318, and average down payment was \$20,454. Real Estate One reported.

Listings far outnumber sales, Elsea added, because in a sluggish market many homes are listed with real estate brokers which might otherwise be sold without an agent.

Moreover, agents might use several different multi-list services because the market is so sluggish.

Billie

The Michigan Humane Society's Westland Kindness Center has many a pup and cat available for adoption. Among them is 6-week-old Billie, a spaniel/shepherd mix. Billie has had her necessary vaccinations is good with kids. To adopt her, call 721-7300. The center is at 37255 Marquette, Westland.

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