

Low down payment can yield big return

MORTGAGE SHOPPING



DAVID C. MULLY

place to live and it's not too soon to start seriously thinking the move you'd like to make.

With interest rates continuing to remain low, many people find it's a great opportunity to purchase their first home or upgrade their residence to the home of their dreams. As you begin to consider the best choice for you, keep in mind that some of the accepted practices concerning buying a home have changed recently.

For example, one of the cardinal rules of home buying over the years has been to put as much money down on the house as you possibly can. This included buyers who were moving up to more expensive homes. The conventional wisdom said take all of the equity out of your first house and use it for the down payment on your second one.

This strategy is currently undergoing some rethinking. Many people feel that, due to changes in the tax laws and current economic conditions, it may make better fiscal sense for buyers to hang on to some of their equity and make a lower down payment.

You may ask, "Why would anyone want a larger mortgage with higher monthly payments?" The reason is, since mortgage interest payments are one of the few tax deductions left for homeowners, you could come out way ahead in the long run.

Let's look at an example. You've lived in your present home for some time and now you're looking to move up. Finding a home you like for \$200,000, you sit down to calculate how much you can put down on the house. You find you have \$50,000 in equity from the sale of your first home, plus \$10,000 in savings for a total of \$60,000.

You could put 25 percent down on the house. This would use up the \$50,000, plus an additional

\$5,000 for closing costs, leaving you only \$5,000 when all is said and done. Let's assume at this time, you also have two car loans totaling \$20,000, with combined payments of \$525 per month at an interest rate of 12 percent.

But what if you only put 10 percent down? This will use \$20,000 of your available savings, plus another \$5,000 for closing costs. (The higher closing costs is a result of the larger loan amount.) This leaves you with \$34,500.

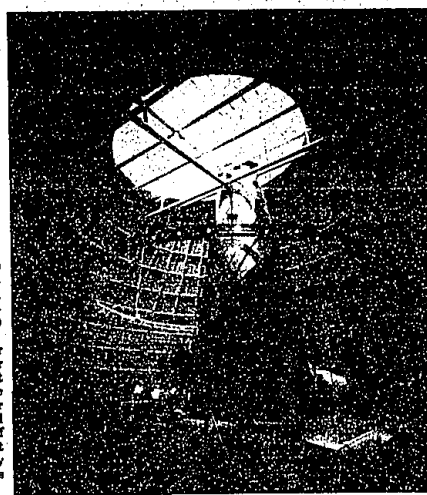
You can now pay off your car loans and, in effect, convert your non-deductible car loan interest into a totally deductible mortgage interest. Even though your monthly mortgage payment will be \$310 more, the elimination of the \$525 monthly car payment will reduce your total monthly payment by \$215. This amounts to an annual savings of \$2,580.

After paying off the car loans, you will still have \$14,500, or \$9,500 more than if you would have put 25 percent down. Plus, the lower down payment will result in \$3,525 more deductible interest in the first year alone.

Then, if you take the extra \$9,500 and invest it into an account paying 7 percent, and add the \$215 savings each month, in four years you'll have over \$23,000, even after paying taxes on the interest earned.

This low down payment strategy isn't for everyone. The ideal candidate is a move-up buyer with a strong income, substantial cash reserves and good credit. This plan won't work unless you are committed to carrying it out. If you have any questions about whether this strategy will work for you, contact your local real estate or mortgage loan professional. If it's right for you, the low down payment plan will allow you to get the home of your dreams while retaining your financial flexibility.

David Mully is a senior loan officer for Source One Mortgage Services Corp. in Farmington Hills. Source One is Michigan's largest mortgage bank. He has specialized in residential mortgages in the Detroit metropolitan area for the last eight years. If you have any comments or questions regarding this column or would like some assistance in shopping for a home mortgage, you can call David at (810) 488-7664 or fax him at (810) 488-7696.



Award winner: Kenneth Neumann/Joel Smith & Associates won a major honor award from the Kentucky Society of Architects for its design of the National Corvette Museum.

Museum's architect wins design honors

Kenneth Neumann/Joel Smith & Associates of Southfield has won an honor award for excellence in architectural design for the National Corvette Museum in Bowling Green, Ky.

The award was presented by the Kentucky Society of Architects.

The museum includes a 16,500-square-foot exhibit hall, a theater seating 165 and an 11-story red spire topped by a 12-foot-high pulsating red beacon emerging from a truncated Skycone 132 feet in diameter.

The building opened in September of 1994.

"I think probably the most challenging thing was to capture and cultivate the Corvette aficionado," Neumann said. "You have someone interested in going fast and the performance aspect... women who see style in the vehicle."

"This was an awful lot of fun for all of us, a real challenge for all of us," he said. "I think we're pretty excited about the results."

The museum was the only entry to receive an honor award from a panel of Chicago architects.

Their comments:

"The building responds to the Corvette sports car that is its museum subject in an exciting, sculptural manner that evokes a quality consistent with its purpose."

"The design, which has been expertly handled by the architects, is totally developed, extended from the sweeping curves of the site plan to the soaring expression of the exterior shell."

"The metal panels on the exterior and the structural expression of the interior add to the machine quality of the building."

"All of the interior exhibits are consistent with the major concept. The grand skylit interior space is punctuated with a great central cone around which the Corvettes seem perfectly at home."

Bill Finley of Bowling Green was an associate architect on the project.

The jury was directed to evaluate each project based on the success with which the project met its own individual requirements.

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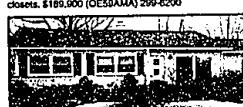
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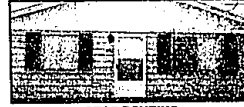
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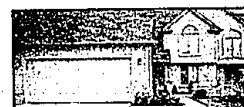
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