Creative financing offers alternatives to high interest

By RON GARBINSKI

There's a new trend for the '80s — called "creative home financing" — with which few will find fault.

Soaring interst rates and housing costs are two frustrating problems that are changing more than our lifestyles.

They have vaulted into the limelight new alternatives in home financing.

These creative financing methods, as tagged by the real estate industry, will allow people to buy or sell homes no matter how severe economic conditions are.

Talk with most real estate agents and they'll say the conventional 20-percent-down mortgage is a thing of the past.

And mortgage companies are continuing to devise new variations of financing as people find it more difficult to buy or sell a home in a period of high interest rates and skyrocketing home prices.

• **RENEGOTIABLE RATE:** This really is a long-term mortgage which is treated like a series of short-term loans with the interest rate being adjusted every three to five years. This loan, often referred to as a rollover mortgage, offers the lender flexibility and doesn't lock the buyer into a high interest rate for the entire term of the loan. The maximum interest rate change is one-half of 1 percent multiplied by the number of years between rate adjustments. In most cases, there is a maximum increase or decrease of 5 percent during the life of the loan.

• **VARIABLE RATE:** This is usually available from federal and some state-chartered savings and loan associations. During the 25- to 30-year mortgage, the interest rate can rise or fall depending on the interest rates at a particular time. The increase is limited to one-half of 1 percent per year with a maximum increase during the life of the mortgage set at 2½ percent. Both the renegotiable and variable-rate mortgages are considered gambles because you're betting on interest rates falling in the future. If rates fall, so does interest payment on your loan. But if interest rates increase, you'll reap higher monthly payments.

• **SHARED APPRECIATION:** Under this variation, the lender agrees to lower the prevailing interest rate by one-third or any other agreed percentage in exchange for the same percentage amount of appreciation when the house is sold. This method is not the best bet if you decide to keep a house for a long period. The buyer and seller, or lender and buyer, become partners in the appreciation of the home. So interest rates are less important to the buyer as the monthly mortgage payment is reduced according to the agreement. The plan allows buyers and sellers to negotiate reasonable payment schedules if it is a seller-financed deal. A shared appreciation guide is available for $2 through T.A. Stevens, Guide M158, Box 39405, Ft. Lauderdale, Fla. 33339.

• **WRAP AROUND:** Under this alternative, the buyer agrees to assume the seller's first mortgage with a lower interest rate, and to piggyback it onto that of a new long-term mortgage at today's higher interest rates. What happens is the newer mortgage wraps around the older one and monthly payments are lower than if you financed the entire purchase price with a new mortgage.

• **GRADUATED PAYMENT:** The graduated payment mortgage is insured by the Federal Housing Administration with loans made by commercial lending institutions. FHA interest rates usually are lower than existing conventional rates. This plan may fit your needs if your income is growing and you plan to occupy the house for less than 10 years. Interest rates are stable during the entire mortgage term with monthly payments being lower in the earlier years of the loan. Since part of the interest is deferred and added to the principal each year, the outstanding loan balance actually gets larger after the first few years. There are five plans in the FHA 245 loan program.

• **SECOND MORTGAGE:** This plan allows the seller to provide the buyer with a second mortgage (also called an owner carryback) so the seller could buy a larger home. One plan under this method is when the buyer assumes the seller's original loan and the seller lends the buyer the amount of difference between the buyer's downpayment and the equity the seller has in the home. The buyer is then responsible for two monthly payments — one payment to the seller and one to the original lending institution.

• **LAND CONTRACT:** This alternative is a contract between the buyer and seller, not a lending institution and buyer. Unlike the other financing methods, title to the property remains in the hands of the seller until the buyer makes his last payment on the land contract. Since the agreement is really a loan between buyer and seller, the buyer does not have to qualify for a lending institution loan. It also could involve a lower down payment along with a lower interest rate which allows the seller to market his home sooner than if he followed the conventional financing route.