REAL ESTATE *NEWS*

Buyers spurn options in favor of fixed rate mortgages

By Doug Funke
staff writer

Fixed rate mortgages are the financing today's home buyer is seeking, according to a survey of the largest mortgagors serving suburban Detroit.

Rates are still well below 10 percent at most institutions.

"You just can't get away from the 30-year mortgage and that old, traditional fixed rate," said Al Marshall, vice president and manager of business development for First Federal of Michigan.

"Fifteen- and 30-year fixed rate mortgage loans are still our bread and butter," said Michael Lubig, vice president and manager of the residential loan department for Standard Federal Bank.

Standard Federal, which issued $1 billion in mortgages in 1990, will be close to $800 million through June of this year, he said. "It will be a record year."

Three of the biggest mortgage lenders, Standard Federal, Comerica and First Federal, last week offered identical rates for fixed mortgages — 9¼ percent for 15 years, 9⅝ for 30.

Standard Federal offered an adjustable rate mortgage at 6⅞ percent initially, First Federal and Comerica, 7 percent.

"RATES, FEES and terms are basically all the same. What you're shopping is service," Lubig said.

About 35 percent of the nearly 5,000 mortgages processed by First Federal this year have been written for 30 years, Marshall said. Another 20 percent of the mortgages have been for 15 years fixed.

Business in ARMs is slow across the board.

The shorter the mortgage commitment, the more favorable the rate.

First Federal, for instance, offers fixed rates ranging from 9⅝ for 30 years to 9 percent for 10 years — all with 20 percent down, 2 points (a loan origination fee equal to 2 percent of the amount borrowed) and a $250 application fee.

You don't want to pay two points? Simple enough. Just add ½ percent to the rate for any time frame you want.

THE SHORTER the payment period, the higher the payment. To illustrate, the monthly payment on a 30-year mortgage of $65,000 at 9¾ percent is $558 compared to $689 for the same amount and rate over 15 years.

"The shorter-term loans are becoming much more popular," Marshall said. "If you can afford it, you want 15 years. You pay a hell of a lot less interest."

The difference is nearly $79,000 between a $65,000 mortgage for 15 years at 9¼ and 30 years at 9⅝, he said.

But remember — home mortgage interest is probably the largest deduction for most taxpayers who own property.

Residential mortgage business at Comerica has been better this year than last, said Sam Kreis, vice president for construction lending.

THE 15-YEAR fixed mortgage and the 7-23 balloon — fixed for seven years, with a balloon payment due at that time, amortized over 30 years at 9⅝ percent — are most in demand by Comerica customers, he said.

Different mortgages are better for different living situations. That's why so many options are available.

Ask questions, lenders advise. How long do you expect to stay in the house? What's more important — to own a house free and clear or the mortgage interest deduction? Do you have the temperament to gamble on an adjustable rate?

Do the math or have someone do it for you.

"Each person is different," Kreis said. "They should seek competent financial advice. If they don't have a plan, they should have one now."

Condo plagued by smoke problems

condo queries
Robert M. Meisner

My husband and I bought a ranch-style condominium. The developer's claim that the units were soundproof proved false. There is a ranch behind us occupied by smokers. When we open our lower cupboards, we smell their smoke. We can also smell it in one end of the basement.

It would appear that the soundproof issue probably involves a common element for which the *association may be responsible*, depending on the master deed and other condominium documents. If the association is responsible, the members of the association should make it clear to the board that they expect it to discharge its fiduciary responsibilities to assure that all defects and deficiencies attributable to the developer are pursued.

To the extent that the township was remiss in investigating this unit, it may be relieved of responsibility under governmental immunity. But the association should elicit the support of the township to put whatever pressure it can upon the developer to remedy the various defects and deficiencies at the site. If the board is unwilling or unable to deal with the problem in an effective fashion and has not documented the fact that the sound conditioning or soundproof problem is not a responsibility of the developer, the co-owners should band together and deal with the board though political or legal redress.

Best financing varies with customer

AP— Home buyers who do their homework can get a mortgage suited to their circumstances and save thousands of dollars in interest payments. Here's a few tips from Changing Times magazines:

- 30-Year fixed rate mortgages. With low interest rates, these are the best loans for home buyers who plan to be in the house more than five to seven years and who want the assurance of level payments.

A 1 percentage point increase on a $100,000 mortgage will cost you roughly $26,600 over 30 years.

- 15-year fixed-rate loans. You pay off this variation on the *30-year* fixed-rate mortgage in half the time. Payments are only 15 to 25 percent higher than on a 30-year loan, partly because the principal decreases more quickly and partly because rates are slightly lower.

Paying off a mortgage in half the usual time may not be a good idea, depending on your tax situation. Mortgage interest is tax-deductible, making it one of your cheapest sources of borrowed money. Ask yourself whether the extra you pay on the shorter-term mortgage could *earn more than the after-tax cost of* the loan if you invested elsewhere.

- Adjustable rate mortgages. With variable-rate loans, the interest rate, and your payments, rise or fall based on the movements of a specific index. The most common ARMs are linked to the average yield on Treasury securities. Others use a weekly average of rates on six-month certificates of deposit (CD-based ARMs) or the average cost of funds for the Federal Home Loan Bank's 11th District bank in San Francisco.

Changes in the rate, which can be monthly, semiannual, yearly or at three- or five-year intervals, are based on the index rate plus a margin of 1 to 3 percentage points. Increases are typically capped at 2 percentage points a year and 5 or 6 points for the life of the loan.

During the past decade, total interest charges on ARMs have typically been lower than those for fixed-rate loans. And their low first-year "teaser" rates helped buyers who couldn't make larger payments afford a house.