

Real Estate

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BLUFFTON'S ONLY DAILY HOMETOWN NEWSPAPER

With housing so affordable for buyers, should homeowners wait or sell now?

FRANK DUNNE, JR.

BLUFFTON TODAY

According to a report released in April by real estate intelligence service, John Burns Real Estate Consulting, housing in the U.S. is at its most affordable level in nearly 40 years. This is mostly due to declining home prices, with low mortgage rates and increased incomes also contributing to a lesser extent.

To put that in perspective, a median-income (\$52,800 per year) U.S. household requires 25 percent of its income to purchase a median-priced (\$164,600) single-family home. That housing cost to income ratio was 44% just three years ago.

That being said, a recent survey conducted by the American Institute of Certified Public Accountants (AICPA) revealed that 79 percent of Americans say that they have no plans to buy or sell a home in the near future, and 70 percent of homeowners who do want to sell plan to wait at least a year or two before doing so.

So, you say, what does all of this have to do with the real estate market here in the Lowcountry? True, the median home price in Bluffton is around \$225,000 and

\$490,000 on Hilton Head Island according to Realtor.com, and median income for Beaufort County is higher than the national average, but that's not the point.

The point is, looking at the AICPA survey results makes one wonder what is everybody waiting for? If you're following real estate news, you've heard it said a million times over the past few months, "It's a great

This could be your chance to get that dream home near the water that you could not afford before.

time to buy!" or, "There are so many great deals out there!"

We know this to be true in our area and, as we talked about a few weeks ago right here, this Spring has seen some improvement in buyer interest compared to the past few years. But what about the other side of the transaction? Why are homeowners who want to sell not selling?

The reason most often given is that they are waiting for home values to recover, which makes perfectly good financial sense.

The problem is, nobody seems to have a very good idea when that is likely to happen. Some of these would-be sellers might be waiting an awfully long time.

Sometimes it's a good idea to look at a home sale from other than a purely financial perspective. Ask yourself why you want to sell. If you're looking to upgrade, although you might not be able to get as high a price as you'd like for your home, you're also going to be a buyer. As we've been saying, there are a lot of good bargains out there, both in Bluffton and on the Island. Of course everybody would rather sell high and buy low, but selling low and buying low isn't necessarily a bad thing. This could be your chance to get that dream home near

the water that you could not afford before.

What if you're ready to retire and downsize now, and what if home values don't recover for another five years or more? Can you afford to wait that long?

Everybody's situation is unique and some of this may or may not make sense for you. It might be a good idea, though, to be reminded that a home is not a stock portfolio. It has much more value to you than its transaction value alone.

Financial questions and answers

BY ILYCE GLINK

TRIBUNE MEDIA SERVICES

Q: In your columns, you frequently say that by making an extra payment each month, you will shave 6 to 8 years off of your 30-year mortgage. Is this still true in this era of extra-low interest rates?

I just bought my first house (as a senior), and while I took out a 30-year mortgage at 4.75 percent to keep my payments low, I want to know how I can pay off the house sooner. My loan amount is \$118,500 and my monthly payments are \$619.

A: I'm glad you asked. One of the great benefits of prepaying your mortgage is that each prepayment is applied toward the principal of the loan. Since you're paying interest on what you've actually borrowed, paying down the loan faster than prescribed in a 30-year amortization schedule means you're paying less interest overall.

Prepaying your mortgage works best when interest rates are higher than they are now. That's because you're paying more in interest; so, given the way compounding works, you're saving a bigger amount of money by prepaying.

For example, let's say

that your \$118,500 loan was actually at 7 percent, rather than 4.75 percent. Your monthly payments would be around \$788 per month. Making one extra \$788 payment per year would slice a 30-year loan to 24 years. Making two extra payments per year would cut your loan term to 21 years.

But prepaying your mortgage will work even if you have a 4.75 percent interest rate.

If you take your \$619 per month payment and divide it by 12, and then make a 1/12 payment (about \$52) each month toward the principal, you'll cut your 30-year mortgage to 26 years. You may save a month or two of payments if you make one extra \$619 payment at the beginning of each year rather than doing monthly installments.

If you make a \$60 per month prepayment, you'll cut the loan to 25 years. If you prepay \$125 per month, you'll cut the loan to about 22 years.

The best way to prepay your mortgage is to simply attach a second check for the prepayment amount. Write "Use to prepay balance" in the memo section and be sure to check off the box that says "prepayment amount" on the coupon

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