

## Why Home Buyers Should not Underestimate the Importance of Interest Rate Drops

Real Estate buyers are usually highly focused on the purchase price of a property. This is a legitimate concern. The purchase price is one of the most important considerations in a real estate transaction. But at the same time home buyers too frequently treat interest rates as a secondary concern. Many buyers will stress over \$300 or \$400 in negotiations over purchase price. But when told that interest rates dropped half a point, home buyers will often respond with a shrug.

This is frequently because it is easy to understand the difference between paying 200k and 195k for a house. But it's harder to appreciate the difference between an interest rate of 6.5% and 6.0% for a house. But interest rates can have a large influence on mortgage payments. Using a mortgage calculator first let's look at the difference between the mortgage on a 200k and the mortgage on a 195k house assuming a 6.5 percent interest rate.

200k (6.5%) Mortgage \$1264.13 per month

195k (6.5%) Mortgage \$1232.53 per month

The difference ends up being \$31.60 a month.

Now let's look at the difference between an interest rate of 6.5% and 6.0% on a 200k house.

200k (6.5%) Mortgage 1264.13 per month

200k (6.0%) Mortgage 1199.10 per month

The difference ends up being \$65.03 a month or \$780.36 a year. A simple half point drop lowered the mortgage payment by 5.4 percent.

Interest rate changes are not that uncommon. We wrote a tool that graphs Mortgage rates over time based on the interest rates provided by Freddie Mac. In the middle of 2007 we saw interest rates of 6.7%. At the beginning of 2008, interest rates were down to 5.75%. What is a little more interesting is when we switch the toggle on our tool to showing the mortgage on a 200k house based on the interest rate for that date instead of the actual interest rates. From the middle of 2007 to the beginning of 2008, we saw a drop in the monthly mortgage on a 200k house drop from \$1270 a month to \$1170, a difference of 9.3 percent. This is why when buyers say they are waiting for prices to drop 5%, it might be a good idea to tell them that the actual mortgage they would get on a house has already dropped by more than 5 percent.

In light of all the mortgage issues over the last few years, it highlights why home buyers should shop around for interest rates. All too frequently home buyers will go with the first mortgage person they meet under the assumption that everyone has roughly the same rates and that a half point isn't really that big of a difference. As we have seen above, a half point can make a non trivial difference in mortgage someone pays.

To make matters worse for those buyers that don't shop around, some mortgage brokers over the last few years charged industry rates that were out of whack with what was standard at the time. If potential buyers had simply made a few calls they would have discovered the problem. But riding under the assumption that it wasn't worth their time to call around and that interest rates were just one of those mundane details they didn't really need to be concerned about, they ended up with interest rates substantially higher than what they should have been. If buyers had a better understanding of interest rates, it could have significantly cut down on mortgage fraud over the last few years.

In summary, home buyers should still focus on price because it will always be an important part of the real estate transaction. But if home buyers start to look at interest rates more closely, they will end up with more success in their real estate purchases and lower mortgage payments.

## About the Author

Ki is a realtor in Austin. His site has a free tool that graphs [mortgage interest rates](#), that webmasters can incorporate into their site to keep visitors up to date on interest rates. He also wrote a [real estate calculator](#) webmasters can incorporate into their websites.

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