Home Buying Trifecta: Right House, Right Price, Right Rate

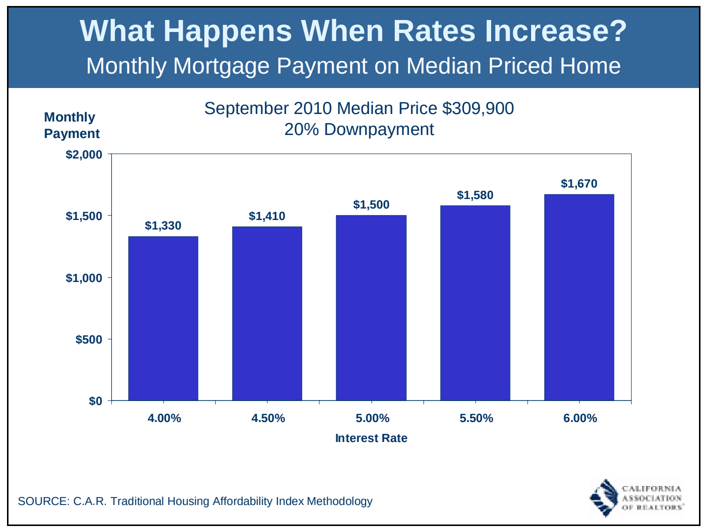
The California housing market showed more signs of adjustment as it moved further from the influence of tax credits earlier in the year and as it responded to evidence of a weaker than expected economic recovery as the year has progressed. Statewide sales rose in September for the second month in a row to 466,580 homes, a 3.8 percent month-to-month gain over sales of 449,290 homes in August. Sales continued to lag last year's pace, declining 12.2 percent compared to 531,180 sales a year ago. The median price rose 4.5 percent over last year from $296,610 to 309,900, while decreasing 2.7 percent from the August median of $318,660. The monthly decrease was larger than the average August-to-September 1.7 percent decline over the past 30 years, but was consistent with current market conditions.

Ratio between home price and income at the lowest level in at least the last 10 years

The months ahead offer a prime opportunity to seek the home buying trifecta: finding the right home at the right price for the right mortgage rate. Here's why:

- First, there is a wider variety of homes on the market now, including a mix of REOs, short sales, and conventional or non-distressed homes for sale. This means that buyers have more to choose from than in the past two years.

- Second, home prices have stabilized or risen in most California markets for at least a year, but still remain well below the peak levels of the last decade. There was a 10-to-1 ratio between the California median price and the California median household income during the last peak. That ratio has fallen to 5-to-1, a level that has not been seen in at least 10 years.



Monthly payment down as mortgage rates remain near record lows in over 50 years

- Third, mortgage rates are at their lowest levels in over 50 years, pushing the monthly payment down dramatically. For example, if one buys a home at the September median price of $309,900, puts 20 percent down and obtains a 30-year mortgage at 4 percent, the monthly mortgage payment would be $1,330. If rates climb to 5 percent, the payment increases to $1,500, or an additional $2,040 per year. If rates climb to 6 percent, the monthly payment would be $1,670, or an additional $4,080 per year. The savings in just two years would exceed the value of the $8,000 tax credit that motivated many households to buy in 2009 and the first half of 2010.

With high unemployment, constraints on consumer credit, and assets that have lost value in recent years, households will face ongoing challenges in the months ahead. Still, the next few months offer a rare chance to "win" the buyer trifecta. Rates are at or near their lowest levels now, but will rise as the economy gains strength. The supply of homes is better than last year, but points to stable or modestly rising home prices over the near term. In the end, if a household is in a position to buy and if it finds a home that will meet its needs for the next several years at a monthly payment it can afford, then it cannot lose if it acts soon.

Brought to you by: