

# The Mortgage Messenger

**S**ummertime! The monsoons are finally here. Perhaps we will finally get some moisture for our grass and gardens. Families go on vacation (see "Matt's Italian Vacation" below right). Others are spending their summer looking for their dream home and moving. Once school starts and the holidays roll around this fall the market is likely to slow a bit. Are you, or someone you know, in the market for a new home? Please call us for fast and easy financing.

Sincerely,

Heidi Snow

President

[hsnow@perennial-mortgage.com](mailto:hsnow@perennial-mortgage.com)

## Client Comment Corner

"Matt was outstanding!! We'll ask for him by name in the future." Paul & Kathleen G, Albuquerque, NM

"I have done this long enough to know the value of a good lender and you are the best." Kate Southard, Kate Southard Real Estate, Albuquerque, NM

"I can't thank Karen enough for making my dream of home-ownership come true. A pleasure to work with you all!" Chris H., Albuquerque, NM

## The Best Mortgage?

The majority of loans we originate are 30-year fixed rate mortgages.

This very popular option combines low payments and no adjustments. That doesn't mean it's the right program for everyone. Which program is right for you?

**Hybrid ARMs**, introduced over the last 5-10 years, are typically 30-year loans with a fixed rate for the first 3-10 years and then an adjustable rate for the remaining term. Since most people either sell or refinance within 7 years, these programs can save money. Hybrids were popular until recently when short-term rates, which adjustable rates are tied to, started rising faster than long term rates. Today the difference between an ARM and a fixed rate has narrowed so much that the savings are relatively small. Don't write them off though. The market will change and these programs will once again become popular with homeowners.


**Interest-only mortgages**, 30-year term loans that don't require principle payments for a period of time, usually 10 years, can be a useful financial tool. Why pay principal when you expect good appreciation and are likely to sell within 5 years? The payment savings can be invested elsewhere. Be aware, however, that after the interest-only period ends, payments will jump significantly to pay off the principal over the remaining term.

Lenders have recently introduced **longer term loans**, which amortize payments over 40 or 50 years. These programs will reduce payments. The downside is that you will pay more interest over the extra 10 to 20 years. We typically don't recommend these

programs unless the borrower can't qualify otherwise. But don't be surprised if these programs become the industry standard.

During the 1980s when mortgage rates were in the teens, mortgages with **balloon payments** were used to lower the note rate. Lenders were willing to accept a lower rate because the entire balance would be due in 5 or 7 years. Since the payments are still amortized over 30 years, buyers get a lower payment. Consumers typically needed to sell or refinance before the balloon was due. Because of historically low interest rates and the development of hybrid ARMs, mortgages with balloon payments are not often seen on first mortgages these days. They are more common on second mortgages and we could see more of them if rates continue to climb.

All the programs above are geared towards lowering the monthly payment. The goal for some is paying off that debt sooner. Being willing to bite the bullet and making larger monthly payments on a **15 or 20 year term** may be the way to go. With a shorter loan term you will save tens of thousands of dollars in interest payments. For example, today's 15 year rate is about 6.25%, a quarter less than the 30-year. On a \$100,000 note you will pay \$225 more per month, but save more than \$73,000 in interest payments over the 30 year note. Again, shorter term interest rates are currently not as attractive as they were a couple years ago.


How do you decide which option is the best for you? It depends on how long you expect to own the property; your tolerance for an increased payment in the future; your need or desire for an extra low payment now; and your other investment opportunities and tax situation. Talk to your loan officer about which loan is right for you. 

## Matt's Italian Vacation

On the Fourth of July while other families were lighting sparklers and grilling on their barbecues, our family set off on a vacation to Italy. Two weeks at the beach is a great way to relax, especially with lots of good food and wine.



Talking to some of my wife's friends at dinner one night, I was surprised to learn that all mortgages in Italy have adjustable interest rates! I began to imagine the business we could generate with a branch office there. Now if I could just find an interested wholesale lender, hmmm...

**Matt Hunter** has been a Loan Officer with Perennial Mortgage since September 2004. 

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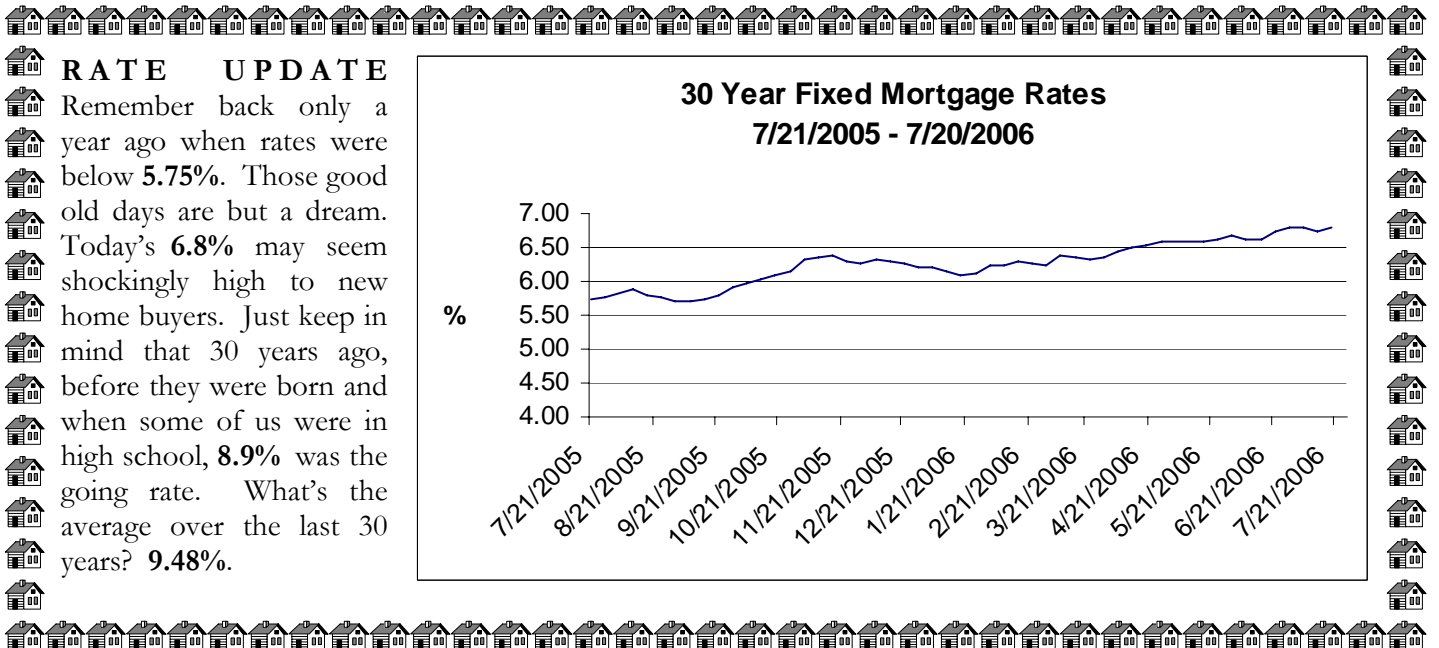
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**RATE UPDATE**  
 Remember back only a year ago when rates were below **5.75%**. Those good old days are but a dream. Today's **6.8%** may seem shockingly high to new home buyers. Just keep in mind that 30 years ago, before they were born and when some of us were in high school, **8.9%** was the going rate. What's the average over the last 30 years? **9.48%**.



**You Think You're So Smart!**

In this type of verse, the "first" and "second" and so on refer to the individual letters of a word. Find the correct letter for each definition or explanation, and complete the word.

My first is in sugar but not in tea  
 My second in swim but not in sea  
 My third in apple and also in pear  
 My fourth in ring and also hare  
 My last in ten but not in herd  
 My whole a very complimentary word

If you want to see if your answer is correct, or you can't figure it out and want to know the answer, email or call Roger Kennett (our resident "Mensa Dude") at rkennett@perennial-mortgage.com or 888-9500.



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