

DEMAND OBAMA REPEAL THE PROCRASTINATION TAX!!!

(Say what?!?!)

Are you paying “The Procrastination Tax”????

In these times of economic hardship, there is a tax so many pay WILLFULLY!!! I can never understand why, but they do: **The Procrastination Tax.**

You pay it, and don't even realize it! And it's likely the biggest discretionary tax you will pay! It's a tax paid for with trade-offs.

Everyday trade-offs that people of my generation might do differently include:

- Pet Rocks
- Lava lamps
- Swatch Watches
- Zoobas Pants
- Members Only Jackets – I am proud to say, I am the last member – how EXCLUSIVE IS THAT?!?!?

If had all the money I spent on that stuff and invested it in Apple Computer, Bill Gates would be bummin' money off me now!

Well, many people are afraid right now to buy a home because their core belief that real estate will always appreciate has been shaken to the core. Their fear is justified. However, they are paying the Procrastination Tax – the tax which is borne of fear BUT paid for EVERY MONTH in REAL MONEY!!!

Apprehensive buyers are overlooking a key trade-off:

- What WILL happen for...
- What MIGHT happen...

What WILL happen is that rates, theoretically, cannot go lower and will only go higher.

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However, if prices are going higher (including the price of money), does it make sense that housing prices will fall forever? (Sure, they can over the short-run, but over the long-term, unlikely.)

So, for people looking to live in a home 5, 10, 30 years, locking in CHEAP, LONG TERM MONEY is the more important consideration.

Did you know that a change of interest rates as LOW AS ½% WILL INSULATE CLIENTS FROM PRICE DROPS OF 11% TO 12%? If interest rates go from 5% to 7% or to their historical averages, of 8.5% to 9.0%, the savings for a 30 year loan ONLY GOES UP!!!

As an aside, I believe prices will drop in the near term due to unemployment, tight credit and lack of meaningful jumbo and self-employed lending facilities, but when you see the math, the MORE IMPORTANT CONCEPT is that locking in long term money will save you more!!

Prior to showing you the charts that illustrate the concept, let me share how mortgage rates can be estimated. The equation is fairly simple, though the finance behind the number is complex:

1. Take the 10 year treasury note coupon
2. Add 170 basis points (1.7%) for risk, called a risk-beta
3. And that is pretty close to what your 30% mortgage rates will be...

Today, per [Bloomberg](http://www.bloomberg.com/markets/rates/index.html) (<http://www.bloomberg.com/markets/rates/index.html>), the 10-year coupon is 3.375%, add 1.7%. Voila! The average 30 year mortgage rate of 5.075% is just about where the market is at – on average.

Don't ask me the actuarial science behind the risk-beta, I don't know and could care less. (That's for the "nerd-herd" to worry about.) However, that's a rule of thumb I have learned.

So, how does this relate to housing? It's really quite simple.

Money is cheaper than it's ever been and ever will likely be again!

Using the Federal Reserve Board of Governors Data (<http://bit.ly/a6kUUM>), rates are the following for the Average 30 Year Mortgage (data back to 1971):

- Average 30-Year Mortgage Since 1971 – 9.00% (or 79% higher than they are now)
- Median 30 Year Mortgage Since 1971 – 8.50% (or 69% higher than they are now)

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Yes, those numbers are correct...historical rates have been nearly DOUBLE where we are now, 5.03%, per the latest FED data.

Locking in cheap long-term money will more than offset a potential loss of \$5000, \$10000, or \$20000 over the course of a home's ownership for a \$200000 home.

At every price point, ½% differentials in interest rates will offset up to about 11%-12% price drops in terms of savings to the purchasers over 30 years of ownership.

Run the math. See it for yourself.

So, unless you plan on selling sooner than the average home buyer, there has never been a better time to buy!

That's what home affordability is! That is what NAR should be pushing – DATA.

I just did a simple table to exemplify how this plays out, along with the breakeven point analysis assuming there is a price drop AND NO BOUNCE BACK. If pricing stabilizes and/or increases, these numbers get better.

ActiveRain has poor table formatting, so a PDF copy of this report will be a downloadable PDF from my website, <http://www.MileHighHomeHunter.com> at the "Procrastination Tax" link at the top of the page.

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**Equity Consumed Due to Incremental Payments Resulting from Interest
Rate Change Based On Estimated Loan Balance of \$ 200000**

	<u>Interest Rate</u>	<u>Pmt per \$100000</u>	<u>Based on Est Loan Balance</u>	<u>Per Month</u>	<u>1 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>30 Yr</u>
	5.00%	\$536.82	\$1,073.64	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	5.50%	\$567.79	\$1,135.58	(\$61.93)	(\$743.22)	(\$3,716.09)	(\$7,432.17)	(\$22,296.51)
	6.00%	\$599.55	\$1,199.10	(\$125.46)	(\$1,505.49)	(\$7,527.47)	(\$15,054.94)	(\$45,164.81)
	6.50%	\$632.07	\$1,264.14	(\$190.49)	(\$2,285.91)	(\$11,429.57)	(\$22,859.14)	(\$68,577.41)
	7.00%	\$665.30	\$1,330.60	(\$256.96)	(\$3,083.54)	(\$15,417.70)	(\$30,835.41)	(\$92,506.23)
	7.50%	\$699.21	\$1,398.43	(\$324.79)	(\$3,897.43)	(\$19,487.15)	(\$38,974.29)	(\$116,922.88)
	8.00%	\$733.76	\$1,467.53	(\$393.89)	(\$4,726.63)	(\$23,633.15)	(\$47,266.31)	(\$141,798.92)
Median 30 Yr Mortgage	8.50%	\$768.91	\$1,537.83	(\$464.18)	(\$5,570.20)	(\$27,851.02)	(\$55,702.05)	(\$167,106.14)
Average 30 Yr Mortgage	9.00%	\$804.62	\$1,609.25	(\$535.60)	(\$6,427.22)	(\$32,136.12)	(\$64,272.24)	(\$192,816.72)

Source: Federal Reserve Board of Governors, Economic Research from the Federal Reserve Bank of St. Louis

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Breakeven if Median Priced Home Drops

<u>Interest Rate</u>	<u>Pmt per \$100000</u>	<u>Based on Est Loan Balance</u>	<u>Per Month</u>	<u>\$5,000.00</u>		<u>\$10,000.00</u>		<u>\$20,000.00</u>		
				<u>Break Even Point In Months</u>	<u>Break Even Point in Years</u>	<u>Break Even Point In Months</u>	<u>Break Even Point in Years</u>	<u>Break Even Point In Months</u>	<u>Break Even Point in Years</u>	
5.00%	\$536.82	\$1,073.64	\$0.00	\$0.00		\$0.00		\$0.00		
5.50%	\$567.79	\$1,135.58	(\$61.93)	81.00	6.75	161.00	13.42	323.00	26.92	
6.00%	\$599.55	\$1,199.10	(\$125.46)	40.00	3.33	80.00	6.67	159.00	13.25	
6.50%	\$632.07	\$1,264.14	(\$190.49)	26.00	2.17	52.00	4.33	105.00	8.75	
7.00%	\$665.30	\$1,330.60	(\$256.96)	19.00	1.58	39.00	3.25	78.00	6.50	
7.50%	\$699.21	\$1,398.43	(\$324.79)	15.00	1.25	31.00	2.58	62.00	5.17	
8.00%	\$733.76	\$1,467.53	(\$393.89)	13.00	1.08	25.00	2.08	51.00	4.25	
Median 30 Yr Mortgage	8.50%	\$768.91	\$1,537.83	(\$464.18)	11.00	0.92	22.00	1.83	43.00	3.58
Average 30 Yr Mortgage	9.00%	\$804.62	\$1,609.25	(\$535.60)	9.00	0.75	19.00	1.58	37.00	3.08

Source: Federal Reserve Board of Governors, Economic Research from the Federal Reserve Bank of St. Louis

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