



Extension News Column

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The housing market is declining. At least it is declining in Alaska, though in some parts of the lower 49, it has tanked. So if you have your eye out for that first house, or if you are looking to trade up to a larger house, now may be your chance.

Does it make sense in this type of market to go ahead and buy? No one can answer this one for you. We want to buy near the bottom of the market so we'll get a good deal, but we don't want to buy and see the market continue to go down. It is anyone's guess whether it is at the bottom or not. So make the decision based on the fact that you need a new house and can afford it.

Today, there is a bewildering array of options on home loans. ARMs, fixed rates, 15 year, 30 year and even 40 year notes. Let's look at what are some of the options and when it makes sense to use each one.

An Adjustable Rate Mortgage (ARM) freezes in the rate for a three or five year period at a lower rate. At the end of this period, the rate can be changed based on the current interest rate at that time. Adjustable Rate Mortgages are one of the contributing factors in the current housing crisis. In effect, people were brought on at a "teaser" rate of 2% or 3%, then had difficulty making the payments when the rate reset. Interest rates had gone up and the ARM adjusted upward.

A fixed rate mortgage is just what it says. It has one rate throughout the 15 or 30 year period. So which one makes sense for you?

An ARM makes sense in these cases:

- If you are only planning to stay in the house a few years. If it is a starter house or condominium that you plan to live in only five years, it makes sense to take advantage of that very low rate.
- If you have good reason to believe that your income is going to go up dramatically.
- If you intend to refinance at the end of the ARM to a fixed rate (and you believe the interest rate is going down).

A fixed rate mortgage should be chosen:

- If you plan to live in your home for many years
- If you believe your income will remain steady for many years.

So the mortgage you choose has as much to do with you and your place in life as the interest rate you may be quoted. Be informed about mortgages before you start looking for a house.