LOWER PRICE OR LOWER INTEREST RATE?

Which is better?

In a buyer's market, buyers wait for signs that prices are going lower. In a seller's market, buyers don't wait because they're afraid prices will go higher. Both markets move on the fear of paying too much.

Right now, buyers have the best of both worlds – home prices have rolled back to nearly a decade ago, and mortgage interest rates are at record lows. Yet, many buyers are still waiting for a sign that it's the right time to buy.

Should you wait for lower prices or lower interest rates before you jump in? Consider the following:

The price of a home is fixed. Buyers have figured out that interest rates can change, so they wait for prices to go lower, but what they don't realize is that prices have to drop significantly to equal a minor fluctuation in mortgage interest rates.

A quick visit to a mortgage calculator will show you the following:

- If you buy a home at $200,000 and a 30-year, fixed-rate mortgage at 4.5%, your monthly payment will be $1,013.37 and you'll pay $164,813.42 in interest over the life of the loan.

- The same home at 5% interest costs $1,073.64, a difference of $60.27 more per month and $186,511.57 in interest over the life of the loan. The difference in interest payments alone is $21,698.15.

- If your home dropped 5% in value and you were able to buy it at $190,000 and 4.5% interest, your payment would be $962.70, a difference of $50.67 per month, with $156,572.75 in interest over the life of the loan. You'd save $50.67 per month than if you'd paid $200,000.

- At 5%, your $190,000 home costs $1019.96, or $53.68 more per month than if you'd gotten the loan at 4.5%. Your interest payments would total $177,185.99 over the life of the loan. The difference in payments is $20,613.24.

Home prices today are well below the peak of the housing boom in 2005, and mortgage interest rates are at all-time lows. Sooner or later one of them will move up.

Why not buy while both are low?

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