

Buyers who “choose to wait until prices come down more” are gambling that interest rates will hold steady or drop. The truth is even a 10 percent drop in home prices is nullified by a 1 percent increase in interest rates. The figure below illustrates how this works for a \$250,000 home purchase and the relative likelihood of each scenario.

Example Home Purchase	Rates up 1% & Prices Steady	Rates Steady & Prices Drop 10%	Rates up 1% & Prices Drop 10%
Today	Probable	Improbable	Improbable
Home Price	Home Price	Home Price	Home Price
\$250,000	\$250,000	\$225,000	\$225,000
Interest Rate	Interest Rate	Interest Rate	Interest Rate
4.23%	5.23%	4.23%	5.23%
Principal & Interest	Principal & Interest	Principal & Interest	Principal & Interest
\$981.54	\$1,101.93	\$883.39	\$991.74
Total Interest Paid	Total Interest Paid	Total Interest Paid	Total Interest Paid
\$191,693	\$245,869	\$172,523	\$221,282

To figure out which was a smarter bet—counting on home prices to fall further or interest rates to rise—our research department took the last ten years of monthly home price and mortgage interest rate data and ran the numbers to see which was more likely: an increase in mortgage rates or a further drop in home prices. Here’s what we found:

1. A one percent increase in mortgage rates is ten times more likely to happen than a ten percent drop in home prices.
2. A one percent rate increase more than offsets a ten percent reduction in home prices.
3. When interest rates fall by one percent, the total interest paid is almost three times more than the interest savings from a ten percent drop in home prices.
4. The probability of both happening at the same time is ridiculously small, and homeowners would still pay 15 percent more in interest over the life of the loan.

Interest rates have dominated the news in recent months as we’ve shattered record low after record low. Potential home buyers need to understand the positive financial impact low interest rates have on the cost of home ownership and the thousands of dollars that can be saved over the life of a typical mortgage loan. For those who can afford to buy, trade up, or invest, our current market presents a lifetime opportunity.