

Buy down mortgage and vendor take back

# More ways still to beat high mortgage rates

By JAMIE JOHNSTON

In my last column, I talked about the vendor paying a lump sum to "buy down" the mortgage rate for purchasers.

A pre-payment by the owner can reduce the effective interest rate, and hence the monthly mortgage payment to the buyer. This improves the chances of a sale when there are fewer buyers or when buyers cannot afford the higher interest rates in today's market.

Some builders are already doing this by offering new homes with financing three to four per cent below current mortgage rates. Now, we are even beginning to see real estate brokerage companies promoting large scale vendor buydown programs. And homeowners with a house for sale must follow, if they want to compete.

But, what happens if a purchaser wants a mortgage "buy down", but the vendor won't agree? There are other options available to help make home buying more affordable. Some mortgage lenders offer financ-

ing where the buyer can reduce his own mortgage rate. The buyer can pay for the discount by diverting "up front" funds that might otherwise have gone into the down payment.

If the purchaser doesn't want to reduce the down payment, another option would be for the purchaser to buy down the interest rate, and then add on the cost of the discount on to the loan principal. Although this option means taking out a slightly larger loan, it delivers lower, much more manageable monthly payments.

At the time when mortgage rates are high, house prices frequently start to fall. Don't forget that if you "lock in" a house at a great price now — you will be reaping the rewards when mortgage rates start to come down.

Often the cost of buying down a mortgage rate for a short term — say, six months or a year — will be far less expensive than waiting for rates to come down, and then paying a higher price for the

house you want.

In addition to the various mortgage discount options we've talked about so far, there's another route to lower mortgage payments - the vendor take back mortgage.

I've talked about all types of creative financing approaches to counteract high interest rates. But still, the most popular is the "Vendor Take Back". In its simplest form a "Vendor Take Back" is a mortgage — often a second mortgage — taken or held by the homeowner as part of the sale.

For example: a homeowner has a house for \$200,000 with a first mortgage of \$100,000 at a favourable rate. The buyer would like to assume this first mortgage but only has \$50,000 as a down payment. Where does the buyer get the extra money? He could go to a financial institution, but at a time like this when mortgage rates are high, a second mortgage could be very costly. As an alternative, the purchaser could suggest that the homeowner take back a second mortgage, at a rate below

market. If accepted, this is a good deal for the buyer as he has lowered his monthly mortgage payments.

But what about the homeowner? If he accepts the offer he will not get cash for all the equity in his house. Furthermore, he is receiving a return on his money at less than market rates. While these facts should be considered, the point to remember is that if the vendor doesn't accept the offer there may be no deal at all! And, as interest rates climb, fewer people can afford to purchase his house.

If the vendor doesn't want the responsibility of holding the mortgage, in several Canadian cities a market already exists for homeowners to sell their Vendor Take Backs. In small centres a seller will usually have to hold on to a Vendor Take Back.

But when the markets are slower, it may be the only way to make a sale.

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