

Financially Speaking

With Trisha Arndt

History Makes the Case for Fixed Rate Mortgages

While standing in line at Miller's Grocery recently, I overheard two relatively young men bemoaning how high mortgage rates have gotten and how foolish it would be to lock in at these levels. I would have felt rude interrupting, but the memory of that conversation plagued me for days.

As the oldest of three children, I have an ingrained inclination to take care of everyone around me. It was that desire to help people, combined with an aptitude for numbers, that first prompted me to obtain a degree in finance and become a financial professional over a decade ago.

Along the way I've accumulated a lot of knowledge that I think could really help people avoid making mistakes.

Over the years I have attempted to find ways to share some basic common sense financial knowledge with groups of people. I've done presentations to professional and college organizations. I've even gone back to Mount Horeb High School (yes, I was a rival Viking) a couple of times to "teach" a class on practical financial skills to graduating seniors.

I like to think I imparted some wisdom to those folks, but I still craved a bigger outlet, which is why I'm writing this column. It will deal with financial issues that have relevance to local residents and their families.

I have long had ties here and really identify with the unique culture of the town and friendliness of the residents. When I was looking for a place to move my business last fall Verona was the only location I considered.

So as I stood in line that day a few weeks ago and heard those two men discussing mortgage rates I knew that I had to find a way to pass some knowledge on to them and anyone else who could benefit from it.

Their comments bothered me so much because, despite recent increases, mortgage rates are still well below their long-term average.

In fact, according to the Federal Housing Finance Board, for the past 40 years mortgage rates have averaged over 8.5 percent, with rates in much of the 1980s climbing to over 10 percent. The last time 30 year residential conventional mortgage rates averaged under 6 percent prior to 2003 was in 1965.

In terms of history mortgage rates today are low.

The interest rate on a mortgage can have a dramatic impact on both the total amount paid over the lifetime of the loan and the required monthly payment. A difference of 2 percent on a \$200,000, 30 year mortgage could raise the monthly payment by more than \$250 per month and mean tens of thousands of dollars in additional lifetime payments.

Introductory rates on adjustable rate mortgages can be attractive but I urge people to look beyond the introductory period to make sure that mortgage is right for them. Will you still be able to afford the payment if the rate adjusts upward? What if the rate is eventually 2 percent higher or more?

Often people argue that they will refinance to a fixed rate when the introductory period runs out but what if rates continue to climb? And what about closing costs?

Does all this mean that everyone should be going with fixed rate mortgages today? Not necessarily. There is a lot that goes into that decision; such as how long you intend to remain in the home and how quickly you intend to repay the mortgage.

You still should work with a qualified mortgage professional to structure the right vehicle for your situation, but if you are thinking of going adjustable just because you are gambling on rates going back below 6% think twice. History has been known to repeat itself and 40 years could be a long time to wait.

This is the first of what will be a regular series of columns addressing financial issues. If you have a question that you would like answered or a suggestion for a topic that you would like to see in a future issue, please e-mail me at trisha@wealthstrategies.biz.

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