Government Program –vs- Free Market Economy

Who gives the homebuyer the best deal?

The Housing and Economic Recovery Act of 2008 established a temporary tax credit of $7,500 for first-time homebuyers. Shortly after it was enacted it was increased to $8,000 for first timers and a $6,500 tax credit for repeat homebuyers was added.

There is no doubt that this government program may have changed the timing of some peoples home purchases however, there is little evidence to prove that it had any incremental effect on home sales.

And, if one were to compare the total financial benefit to the homebuyers that bought during the government program with the homebuyers out there purchasing homes today you would have to come up with the same answer I did. As usual, the “something for nothing” - “free money from the government” stimulus program ended up costing the homebuyers on both ends, higher interest rates and yes, more taxpayer debt.

I went ahead and did the math to make the comparison, here are the numbers:

> Fact 1: When the tax credit program was in effect the 30 year fixed mortgage rate was at 5.5%.
>
> Fact 2: Today, the 30 year fixed mortgage rate is at 4.5%.

Without government interference and meddling in the market the rate went down a whole point since the program ended. Is this a big deal, does it make much difference? “You Betcha,” it does!

Here are the numbers; you decide where you get the better deal.

Based on a $350,000, 30 year fixed rate mortgage	**Tax Credit**	**Monthly P&I**	**Total P&I X 360**	**Savings**
The Govt. Program (Prevailing Rate 5.5%	$8,000	$1,987.26	$715,413.60	($76,989.60)
Free Market Today (Rate as of Sept. 3, 2010-4.5%)	$0	$1,773.40	$638,424.00	$76,989.60

Fact 3: The person that bought under the government tax credit program would have a monthly mortgage payment that is $213.86 higher than the person buying the same house with the same 30 year fixed rate mortgage because the market interest rate went down a whole point after the program ended. Every year, for thirty years, the person that used the government program pays an additional $2,566.32 in mortgage payments.

Now let's take this whole idea one step further. What would happen if the person that purchased their home under the government program deposited their $8,000 in a 30 year fixed rate bond at 5% and the person that bought their home after the government program expired took their monthly savings and deposited it each month in a 5% savings account?

All savings calculations based on 5% per annum.	Total amount of interest earned over 30 years	Total effective cost of the home mortgage over the 30 years with savings.
Homebuyer that saved the $8,000 credit.	$26,575.54	$688,838.06
Homebuyer that saved the $213.86 mortgage saving each month.	$94,438.03	$543,985.97

The numbers don't lie. Forget the government tax credit. Right here, and right now, we are experiencing a "Perfect Storm" real estate market. Empty out your piggy bank, grab your check book, call that real estate agent that has been sending you e-mails, birthday cards, and free refrigerator magnets with the schedules of your favorite sports teams on them and go buy a new house. If you buy now while the rates are at 4.5% you will save $144,852.09 over those folks that bought during the government program.