The 30-Year Fixed-Rate Mortgage is an Important Financing Tool

Today's historically low mortgage interest rates are good news for both prospective and current homeowners. Families that want to buy can afford more home for their money. And homeowners may be able to refinance their mortgages and lower their monthly payments, or tap into their home's equity to pay for expenses such as school tuition for their children or a major renovation.



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But, the 30-year fixed rate mortgage — the primary housing financing tool for most Americans — is being threatened. Some members of Congress are pushing to end the federal backstop for housing. Without a federal role to absorb market risk, private lenders would increase interest rates and fees on all types of available financing options, including the 30-year, fixed-rate mortgage.

Economists agree that there can be no sustainable economic recovery until the housing market rebounds. A sound housing finance system that provides a stable and affordable supply of credit for home buyers and rental housing is essential to ensure a healthy housing market, to keep standard 30-year fixed-rate loans and adjustable rate mortgages readily accessible and affordable, to spur job creation and to maintain a strong and durable economy.

During the Great Depression, the national homeownership rate was well under 50 percent and buyers were often forced to finance their homes with a 50 percent downpayment on a five-year balloon mortgage. The 30-year, fixed-rate mortgage came about as a result of President Franklin Roosevelt's New Deal policies and played a pivotal role in helping to increase the national homeownership rate so that today two out of three Americans own a home.

The 30-year loan is the most popular and sustainable mortgage in the marketplace for many reasons, including:

■ Affordability. Thirty-year terms lock in low monthly payments, allowing households with average incomes to comfortably budget for their home loan.

■ Inflation protection. Knowing their monthly housing costs will remain the same year in and year out regardless of whether interest rates rise provides households with a sense of financial security and also acts as a hedge against inflation.

■ Long-term planning. Many young buyers know that as their incomes rise, their mortgage payment will stay constant and take up less of their monthly budget, which will enable them to save for other costs like their children's school tuitions and retirement.

■ Tax advantages. In most instances, all of the interest and property taxes a home owner pays in a given year can be deducted from their gross income, reducing their taxable income. This can result in thousands of dollars of tax savings, especially in the early years of a 30-year mortgage when interest makes up most of the payment.

Learn more about the benefits of homeownership at HBAofGreenville.com.