THINGS TO CONSIDER WHEN

BUYING A HOME

WINTER 2018
EDITION

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4 Reasons To Buy A Home This Winter!

Here are four great reasons to consider buying a home today instead of waiting.

1. Prices Will Continue to Rise

CoreLogic's latest *Home Price Index* reports that home prices have appreciated by 7.0% over the last 12 months. The same report predicts that prices will continue to increase at a rate of 4.7% over the next year.

The bottom in home prices has come and gone. Home values will continue to appreciate for years. Waiting no longer makes sense.

2. Mortgage Interest Rates Are Projected to Increase

Freddie Mac's Primary Mortgage Market Survey shows that interest rates for a 30-year mortgage have hovered around 4%. Most experts predict that rates will rise over the next 12 months. The *Mortgage Bankers Association, Fannie Mae, Freddie Mac* and the *National Association of Realtors* are in unison, projecting that rates will increase by this time next year.

An increase in rates will impact YOUR monthly mortgage payment. A year from now, your housing expense will increase if a mortgage is necessary to buy your next home.

3. Either Way, You Are Paying a Mortgage

There are some renters who have not yet purchased a home because they are uncomfortable taking on the obligation of a mortgage. Everyone should realize that unless you are living with your parents rent-free, you are paying a mortgage - *either yours or your landlord's.*

As an owner, your mortgage payment is a form of *'forced savings'* that allows you to have equity in your home that you can tap into later in life. As a renter, you guarantee your landlord is the person with that equity.

Are you ready to put your housing cost to work for you?

4. It's Time to Move on with Your Life

The 'cost' of a home is determined by two major components: the price of the home and the current mortgage rate. It appears that both are on the rise.

But what if they weren't? Would you wait?

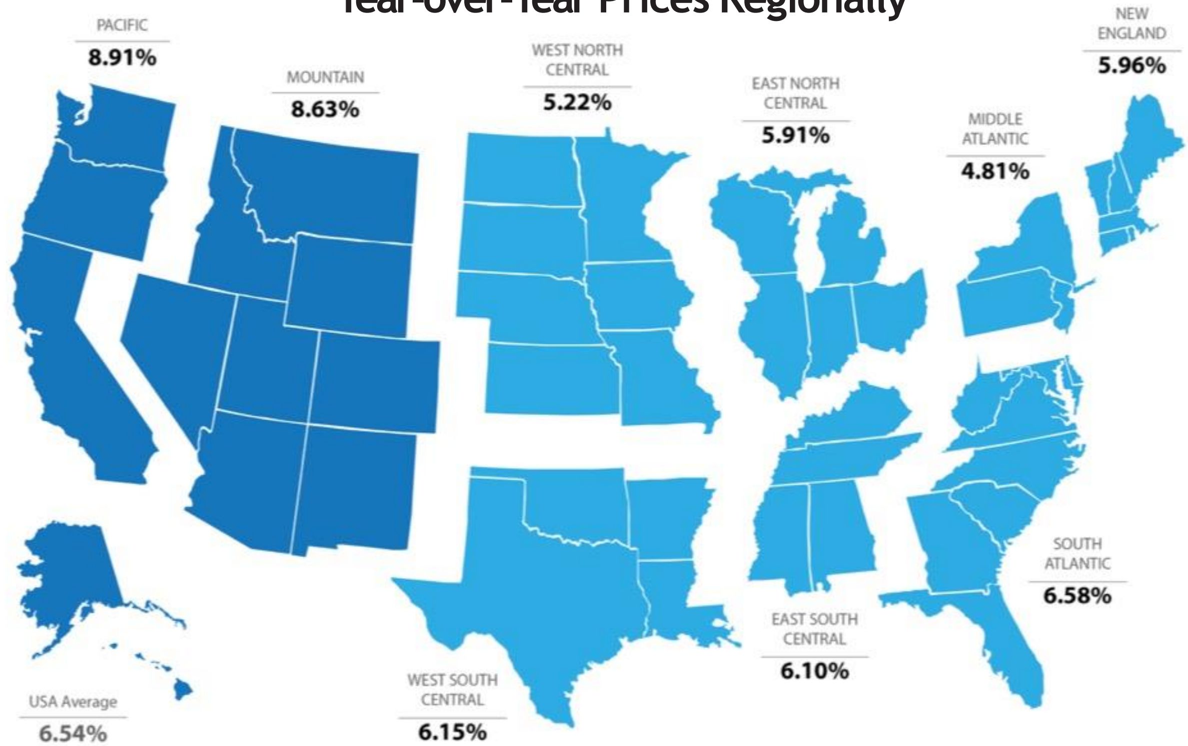
Look at the actual reason you are buying and decide if it is worth waiting. Whether you want to have a great place for your children to grow up, you want your family to be safer, or you just want to have control over renovations, maybe now is the time to buy.

If the right thing for you and your family is to purchase a home this year, buying sooner rather than later could lead to substantial savings.

Home Prices Over The Last Year

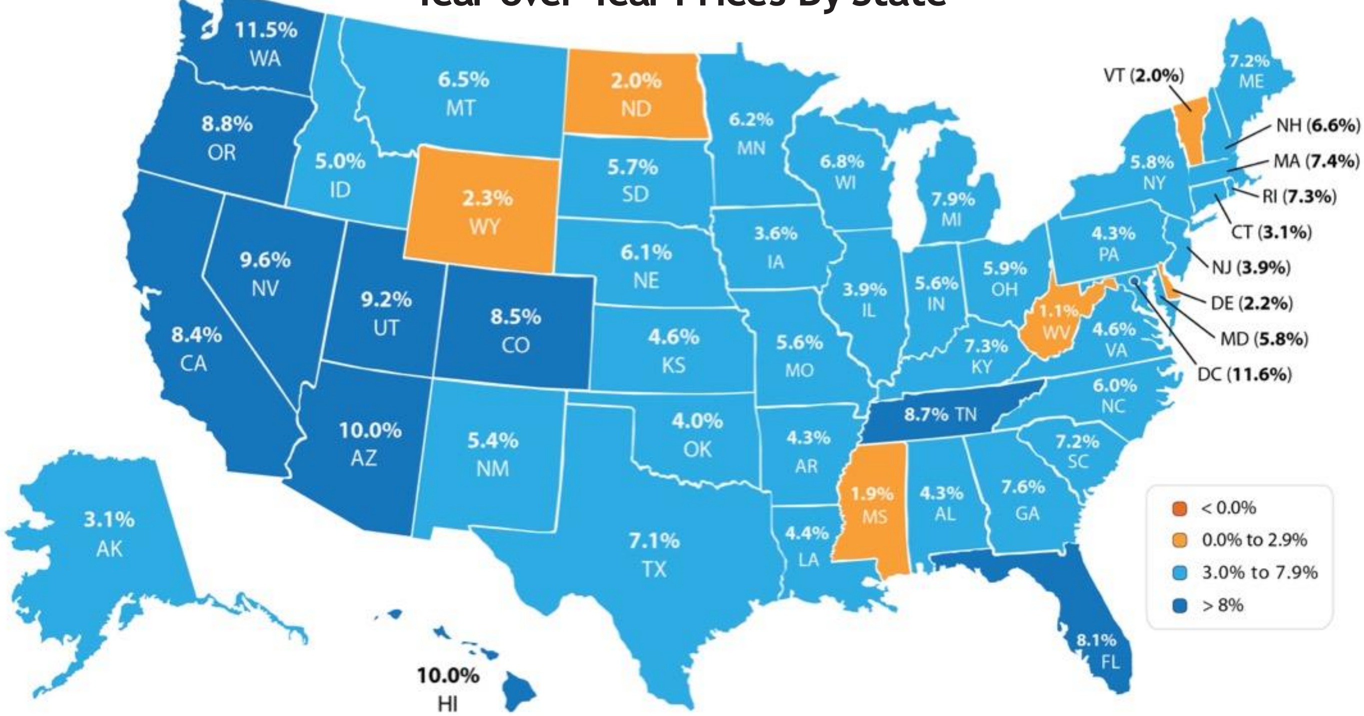
Every quarter, the *Federal Housing Finance Agency* (FHFA) reports on the year-over-year changes in home prices. Below, you will see that prices are up year-over-year in every region.

Year-over-Year Prices Regionally



Looking at the breakdown by state, you can see that each state is appreciating at a different rate. This is important to know if you are planning on relocating to a different area of the country. Waiting to move may end up costing you more!

Year-over-Year Prices By State

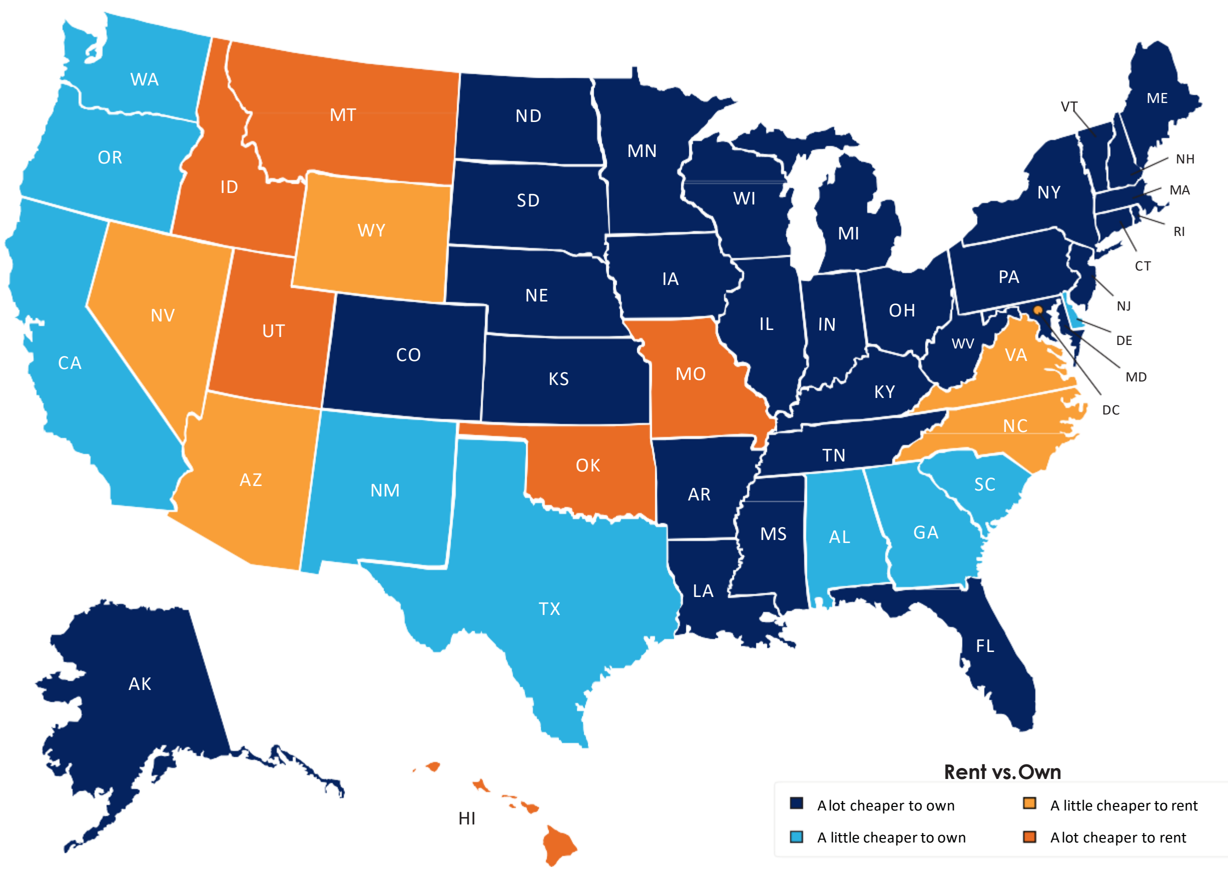


Buying Remains Cheaper Than Renting in 39 States!

In the latest *Rent vs. Buy Report* from *Trulia*, they explained that homeownership remains cheaper than renting with a traditional 30-year fixed rate mortgage in the 100 largest metro areas in the United States.

The updated numbers show that the range is an average of 6.5% less expensive in San Jose (CA), all the way up to 57% less expensive in Detroit (MI), and **37.4% nationwide!**

A study by *GoBankingRates* looked at the cost oaf renting vs. owning a home at the state level and concluded that in 39 states, it is actually ‘a little’ or ‘a lot’ cheaper to own (represented by the two shades of blue in the map below).



One of the main reasons owning a home has remained significantly cheaper than renting is the fact that interest rates have remained at or near historic lows. *Freddie* Mac reports that interest rates for a 30-year fixed rate mortgage have hovered around 4%.

Nationally, rates would have to reach 9.1%, a 128% increase over today’s average of 4.0%, for renting to be cheaper than buying. Rates haven’t been that high since January of 1995, according to *Freddie Mac*.

Bottom Line

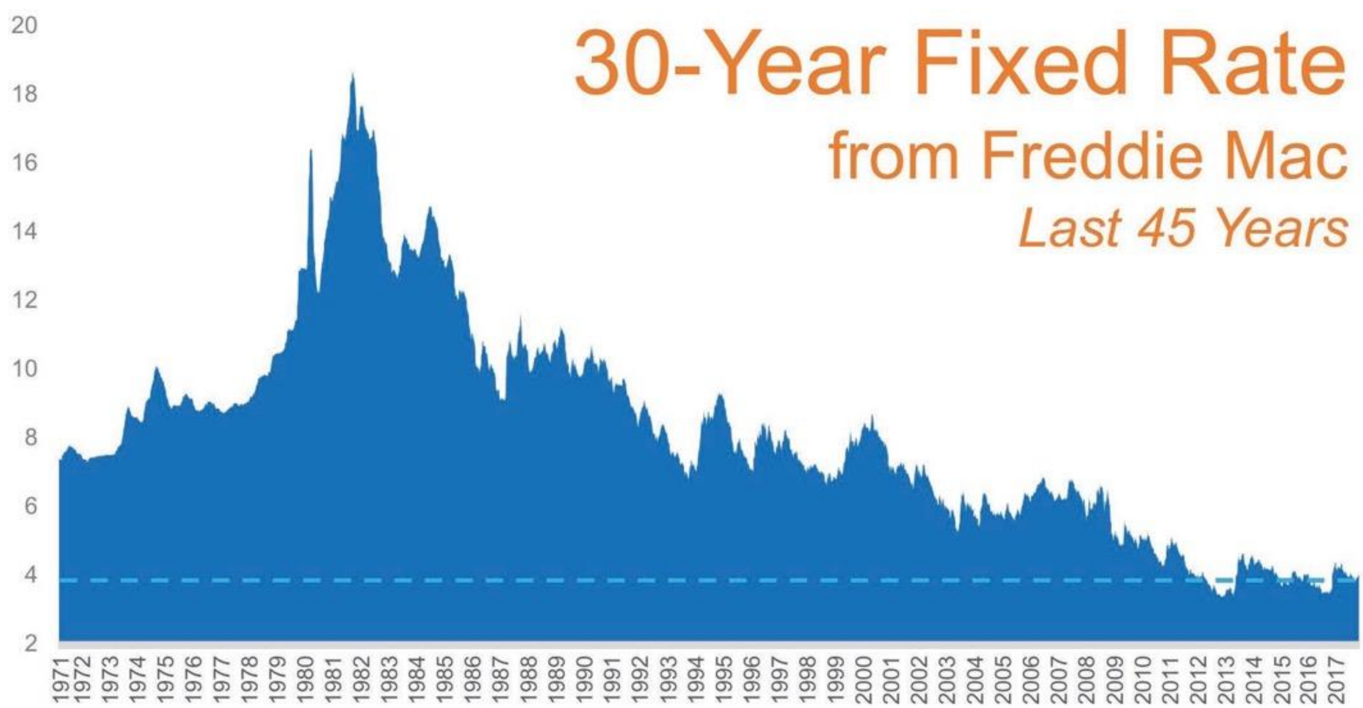
Buying a home makes sense socially and financially. If you are one of the many renters who would like to evaluate your ability to buy this year, let’s get together and find you your dream home.

Be Thankful You Don’t Have To Pay Mom & Dad’s Interest Rate

Interest rates have hovered around 4% for the majority of 2017, which has given many buyers relief from rising home prices and has helped with affordability. Experts predict that rates will increase by the end of 2017 and will be about three-quarters of a percentage point higher, at 4.6%, by the end of 2018.

The rate you secure greatly impacts your monthly mortgage payment and the amount you will ultimately pay for your home. Don't let the prediction that rates will rise to 4.6% stop you from buying your dream home this year!

Let’s take a look at a historical view of interest rates over the last 45 years.



Bottom Line

Be thankful that you can still get a better interest rate than your older brother or sister did ten years ago, a lower rate than your parents did twenty years ago, and a better rate than your grandparents did forty years ago.

Is Your First Home Within Your Grasp?

For the longest time, many experts doubted whether Millennials *(ages 18-36)* valued homeownership as a part of ***their American Dream.***

Looking at the latest statistics from the *National Association of Realtors* we can see that 'Old Millennials' *(ages 25-36)* are ***dominating the first-time homebuyer category.***

	% of Buyers	Median Age
 **All First-Time Homebuyers**	100%	32
 **Married Couples**	57%	32
 **Single Females**	18%	35
 **Unmarried Couples**	16%	30
 **Single Males**	7%	31

2% of first-time homebuyers do not fit into the categories above and represent an 'Other' category. The median age of this group is 37 years old.

Buying A Home? Consider Cost, Not Just Price

As a seller, you will be most concerned about 'short-term price' – where home values are headed over the next six months. As a buyer, however, you must not be concerned about price, but instead about the 'long-term cost' of the home.

The *Mortgage Bankers Association* (MBA), *Freddie Mac*, and *Fannie Mae* all project that mortgage interest rates will increase by this time next year. According to *CoreLogic's* most recent *Home Price Index Report*, home prices will appreciate by 4.7% over the next 12 months.

What Does This Mean as a Buyer?

If home prices appreciate by the 4.7% predicted by *CoreLogic* **over the next twelve months,** here is a simple demonstration of the impact an increase in interest rate would have on the mortgage payment of a home selling for approximately $250,000 today:

	Mortgage	Interest Rate*	Payment (P&I)**
Today	$250,000	3.90%	**$1,179.17**
Q4 2018	$261,750	4.60%	**$1,341.85**
Difference in Monthly Payment			**$162.68**

Rates based on Freddie Mac's prediction at time of print

Monthly	Annually	Over 30 Years
$162.68	**$1,952.16**	**$58,564**

5 Reasons Homeownership Is A Good Financial Investment

Owning a home has great financial benefits, yet many continue to rent. Let’s look at the financial reasons why owning a home of your own has been a part of the American Dream for as long as America has existed.

Zillow reported that:

> *“In reality, buying or renting a home is an intensely personal decision, with emotional and even financial considerations that go beyond whether to invest in this one (admittedly large) asset.* ***Looking strictly at housing market numbers, there is a concrete point at which buying a home makes more financialsense than renting it.”***

What proof exists that owning is financially better than renting?

1. Here are 5 financial benefits of homeownership:

- Homeownership is a form of *forced savings*.
- Homeownership provides *tax savings*.
- Homeownership allows you to *lock in your monthly housing cost*.
- Buying a home is *cheaper than renting*.
- No other investment lets you *live inside of it*.

2. Owning Increases Your Net Worth

According to the *Federal Reserve's Survey of Consumer Finances,* a homeowner's net worth is 44x greater than that of a renter.

3. Owning Builds Your Family's Wealth

Based on the results of *Pulsenomic's* latest *Home Price Expectation Report,* a family that purchased an average-priced home at the beginning of 2017 will build more than $48,000 in family wealth over the next five years.

4. Owning Saves You Money

Some argue that renting eliminates the cost of taxes and home repairs, but every potential renter must realize that all the expenses the landlord incurs are already baked into the rent payment – *along with a profit margin!*

Bottom Line

Owning a home has always been, and will always be, better from a financial standpoint than renting.

2 Myths That May Be Holding You Back From Buying

In *Realtor.com's* article, *"Home Buyers' Top Mortgage Fears: Which One Scares You?"* they mention that *"46% of potential home buyers fear they won't qualify for a mortgage to the point that they don't even try."*

Myth #1: "I Need a 20% Down Payment"

Buyers overestimate the down payment funds needed to qualify for a home loan. According to a study released by *NerdWallet*, 44% of Americans believe they need to put down 20% or more to buy a home.

The article explains that:

> *"VA loans require no down payment; Fannie Mae and Freddie Mac have 3% down programs; FHA loans allow down payments as low as 3.5%; many banks and online lenders now offer their own low-down-payment mortgages; and several state and local governments offer down payment assistance programs to residents."*

Many renters may actually be able to enter the housing market sooner than they ever imagined with new programs that have emerged allowing less cash out of pocket.

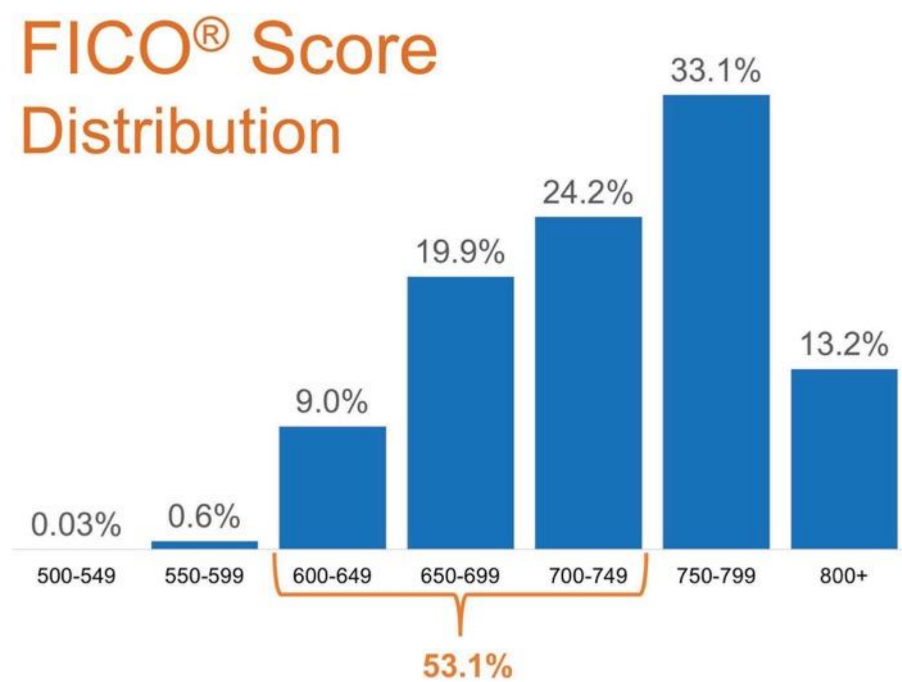
Myth #2: "I need a 780 FICO® Score or Higher to Buy"

A survey revealed that 59% of Americans either don't know (54%) or are misinformed (5%) about what FICO® score is necessary to qualify.

Many Americans believe a 'good' credit score is 780 or higher.

To help debunk this myth, let's take a look at *Ellie Mae's* latest *Origination Insight Report*, which focuses on recently closed (approved) loans.

As you can see on the right, 53.1% of approved mortgages had a credit score of 600-749.



Bottom Line

Whether buying your first home or moving up to your dream home, knowing your options will make the mortgage process easier. Your dream home may already be within your reach.

You Can Save For A Down Payment Faster Than You Think

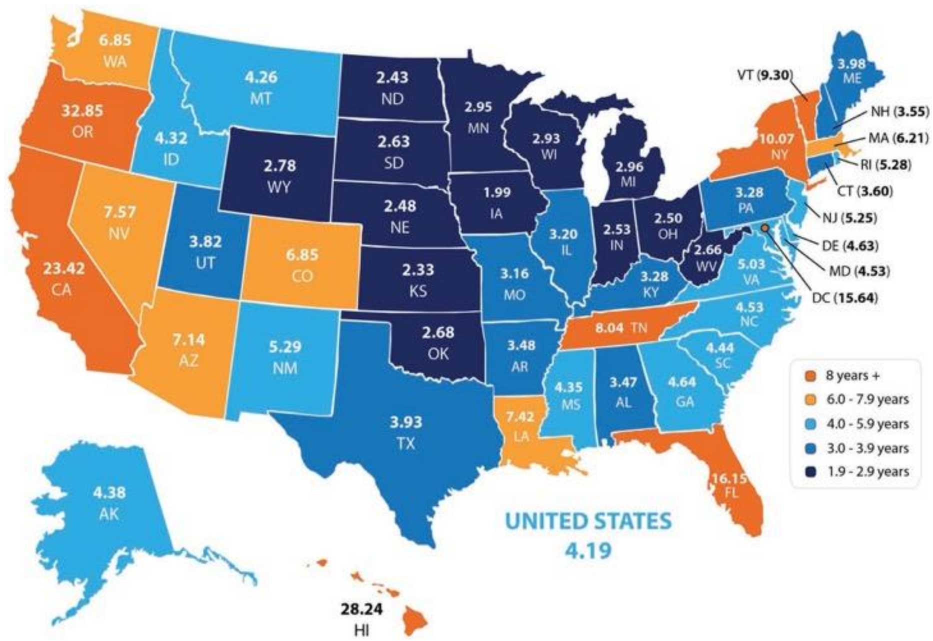
Saving for a down payment is often the biggest hurdle for a first-time homebuyer. Depending on where you live, median income, median rents, and home prices all vary. So, we set out to find out how long it would take you to save for a down payment in each state.

Using data from the *United States Census Bureau* and *Zillow*, we determined how long it would take, nationwide, for a first-time buyer to save enough money for a down payment on their dream home. There is a long-standing 'rule' that a household should not pay more than 28% of their income on their monthly housing expense.

By determining the percentage of income spent renting a 2-bedroom apartment in each state, and the amount needed for a 10% down payment, we were able to establish how long (in years) it would take for an average resident to save enough money to buy a home of their own.

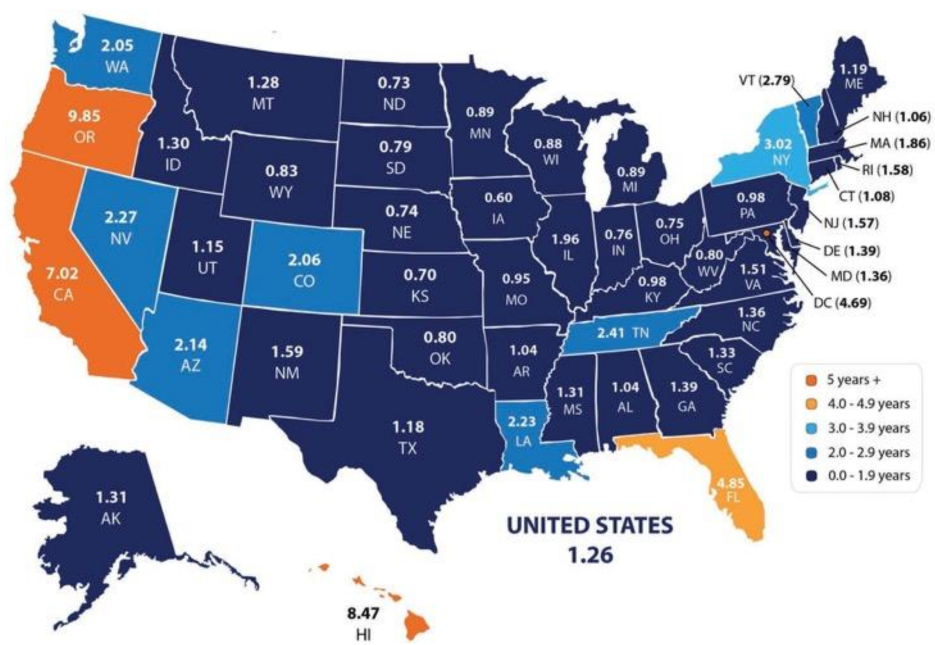
On the right is a map created using the data for each state.

According to the data, residents in Iowa can save for a down payment the quickest in just under 2 years (1.99).



What if you only needed to save 3%?

What if you were able to take advantage of one of *Freddie Mac's* or *Fannie Mae's* 3% down programs? Suddenly, saving for a down payment no longer takes 5 or 10 years, but becomes attainable in a year or two in many states (as shown in the map to the right).



Bottom Line

Whether you have just started to save for a down payment, or have been saving for years, you may be closer to your dream home than you think! Let's meet up so we can help you evaluate your ability to buy today.

Why Pre-Approval Should Be Your First Step

In many markets across the country, the number of buyers searching for their dream homes greatly exceeds the number of homes for sale. This has led to a competitive marketplace where buyers often need to stand out. One way to show you are serious about buying your dream home is to get pre-qualified or pre-approved for a mortgage before starting your search.

But even if you are in a market that is not as competitive, knowing your budget will give you the confidence to know if your dream home is within your reach.

Freddie Mac lays out the advantages of pre-approval in the 'My Home' section of their website.

> *"It's highly recommended that you work with your lender to get pre-approved before you begin house hunting. Pre-approval will tell you how much home you can afford and can help you move faster, and with greater confidence, in competitive markets."*

One of the many advantages of working with a local real estate professional is that many have relationships with lenders who will be able to help you with this process. Once you have selected a lender, you will need to fill out their loan application and provide them with important information regarding *"your credit, debt, work history, down payment and residential history."*

Freddie Mac describes the '4 Cs' that help determine the amount you will be qualified to borrow:

- **Capacity:** Your current and future ability to make your payments
- **Capital or Cash Reserves:** The money, savings, and investments you have that can be sold quickly for cash
- **Collateral:** The home, or type of home, that you would like to purchase
- **Credit:** Your history of paying bills and other debts on time

Getting pre-approved is one of many steps that will show home sellers that you are serious about buying and it often helps speed up the process once your offer has been accepted.

Bottom Line

Many potential home buyers overestimate the down payment and credit scores needed to qualify for a mortgage today. If you are ready and willing to buy, you may be surprised at your ability to do so as well.

How Low Interest Rates Increase Your Purchasing Power

According to *Freddie Mac's Primary Mortgage Market Survey,* interest rates for a 30-year fixed rate mortgage have hovered around 4% all year and are still near record lows.

The interest rate you secure when buying a home not only greatly impacts your monthly housing costs, but also impacts your purchasing power.

Purchasing power, simply put, is the amount of home you can afford to buy for the budget you have available to spend. As rates increase, the price of the house you can afford will decrease if you plan to stay within a certain monthly housing budget.

The chart to the right shows the impact rising interest rates would have if you planned to purchase a home within the national median price range, and planned to keep your principal and interest payments between $1,850-$1,900 a month.

With each quarter of a percent increase in interest rate, the value of the home you can afford decreases by 2.5% (in this example, $10,000). Experts predict that mortgage rates will be closer to 5% by this time next year.

Buyer's Purchasing Power

RATE					
5.25	$ 2,208	$ 2,154	$ 2,098	$ 2,044	$ 1,988
5.00	$ 2,148	$ 2,094	$ 2,040	$ 1,986	$ 1,932
4.75	$ 2,086	$ 2,034	$ 1,982	$ 1,930	**$ 1,878**
4.50	$ 2,026	$ 1,976	$ 1,926	**$ 1,874**	$ 1,824
4.25	$ 1,968	$ 1,919	**$ 1,869**	$ 1,820	$ 1,771
4.00	$ 1,910	**$ 1,862**	$ 1,814	$ 1,766	$ 1,719
3.75	**$ 1,852**	$ 1,806	$ 1,760	$ 1,714	$ 1,667
	$ 400,000	**$ 390,000**	**$ 380,000**	**$ 370,000**	**$ 360,000**
		-2.5%	**-5%**	**-7.5%**	**-10%**

Principal and Interest Payments
rounded to the nearest dollar amount.

Act now to get the most house for your hard-earned money.

Starting To Look For A Home? Know What You Want vs. What You Need

In this day and age of being able to shop for anything anywhere, it is really important to know what you're looking for when you start your home search.

If you've been thinking about buying a home of your own for some time now, you've probably come up with a list of things that you'd LOVE to have in your new home. Many new homebuyers fantasize about the amenities that they see on television or *Pinterest,* and start looking at the countless homes listed for sale with rose-colored glasses.

Do you really need that farmhouse sink in the kitchen in order to be happy with your home choice? Would a two-car garage be a convenience or a necessity? Could the man cave of your dreams be a future renovation project instead of a make or break now?

The first step in your home buying process should be to get pre-approved for your mortgage. This allows you to know your budget before you fall in love with a home that is way outside of it.

The next step is to list all the features of a home that you would like, and to qualify them as follows:

- **'Must-Haves'** – if this property does not have these items, then it shouldn't even be considered. (ex: distance from work or family, number of bedrooms/bathrooms)
- **'Should-Haves'** – if the property hits all of the 'must-haves' and some of the 'should-haves,' it stays in contention, but does not need to have all of these features.
- **'Absolute-Wish List'** – if we find a property in our budget that has all of the 'must-haves,' most of the 'should-haves,' and ANY of these, it's the winner!

Bottom Line

Having this list fleshed out before starting your search will save you time and frustration, while also letting your agent know what features are most important to you before he or she begins to show you houses in your desired area.

Why Working With A Local Real Estate Professional Makes All The Difference

If you’ve entered the real estate market, as a buyer or a seller, you’ve inevitably heard the real estate mantra, *“location, location, location”* in reference to how identical homes can increase or decrease in value due to where they’re located. Well, a recent survey shows that when it comes to choosing a real estate agent, the millennial generation’s mantra is, *“local, local, local.”*

CentSai, a financial wellness online community, recently surveyed over 2,000 millennials (ages 18-34) and found that **75% of respondents would use a local real estate agent** over an online agent, and 71% would choose a local lender.

Survey respondents cited many reasons for their choice to go local, *“including personal touch & hand holding, long standing relationships, local knowledge, and amount of hassle.”*

Doria Lavagnino, *Cofounder & President of CentSai,* had this to say:

> *“We were surprised to learn that online providers are not yet as big a disrupter in this sector as we first thought, despite purported cost savings. We found that millennials place a high value on the personal touch and knowledge of a local agent. Buying a home for the first time is daunting, and working with a local agent—particularly an agent referred by a parent or friend—could provide peace of mind.”*

The findings of the *CentSai* survey are consistent with the *Consumer Housing Trends Study,* which found that millennials prefer a more hands-on approach to their real estate experience:

> *“While older generations rely on real estate agents for information and expertise, Millennials expect real estate agents to become trusted advisers and strategic partners.”*

When it comes to choosing an agent, millennials and other generations share their top priority: **the sense that an agent is trustworthy and responsive to their needs.**

That said, technology still plays a huge role in the real estate process. According to the *National Association of Realtors,* 94% of home buyers look for prospective homes and neighborhoods online, and 74% also said they would use an online site or mobile app to research homes they might consider purchasing.

Bottom Line

Many wondered if this tech-savvy generation would prefer to work with an online agent or lender, but more and more studies show that when it comes to real estate, millennials want someone they can trust, someone who knows the neighborhood they want to move into, leading them through the entire experience.

Getting A Mortgage: Why So Much Paperwork?

Why is there so much paperwork mandated by lenders for a mortgage loan application when buying a home today? It seems that they need to know everything about you and require three separate sources to validate each and every entry on the application form.

Many buyers are being told by friends and family that the process was a hundred times easier when they bought their home ten to twenty years ago.

There are two very good reasons that the loan process is much more onerous on today's buyer than perhaps any time in history.

1. The government has set new guidelines that now demand that the bank prove beyond any doubt that you are indeed capable of paying the mortgage.

During the run-up to the housing crisis, many people'qualified' for mortgages that they could never pay back. This led to millions of families losing their homes. The government wants to make sure this can't happen again.

2. The banks don't want to be in the real estate business.

Over the last seven years, banks were forced to take on the responsibility of liquidating millions of foreclosures and also negotiating another million+ short sales. Just like the government, they don't want more foreclosures. For that reason, they need to double (maybe even triple) check everything on the application.

However, there is some good news about this situation.

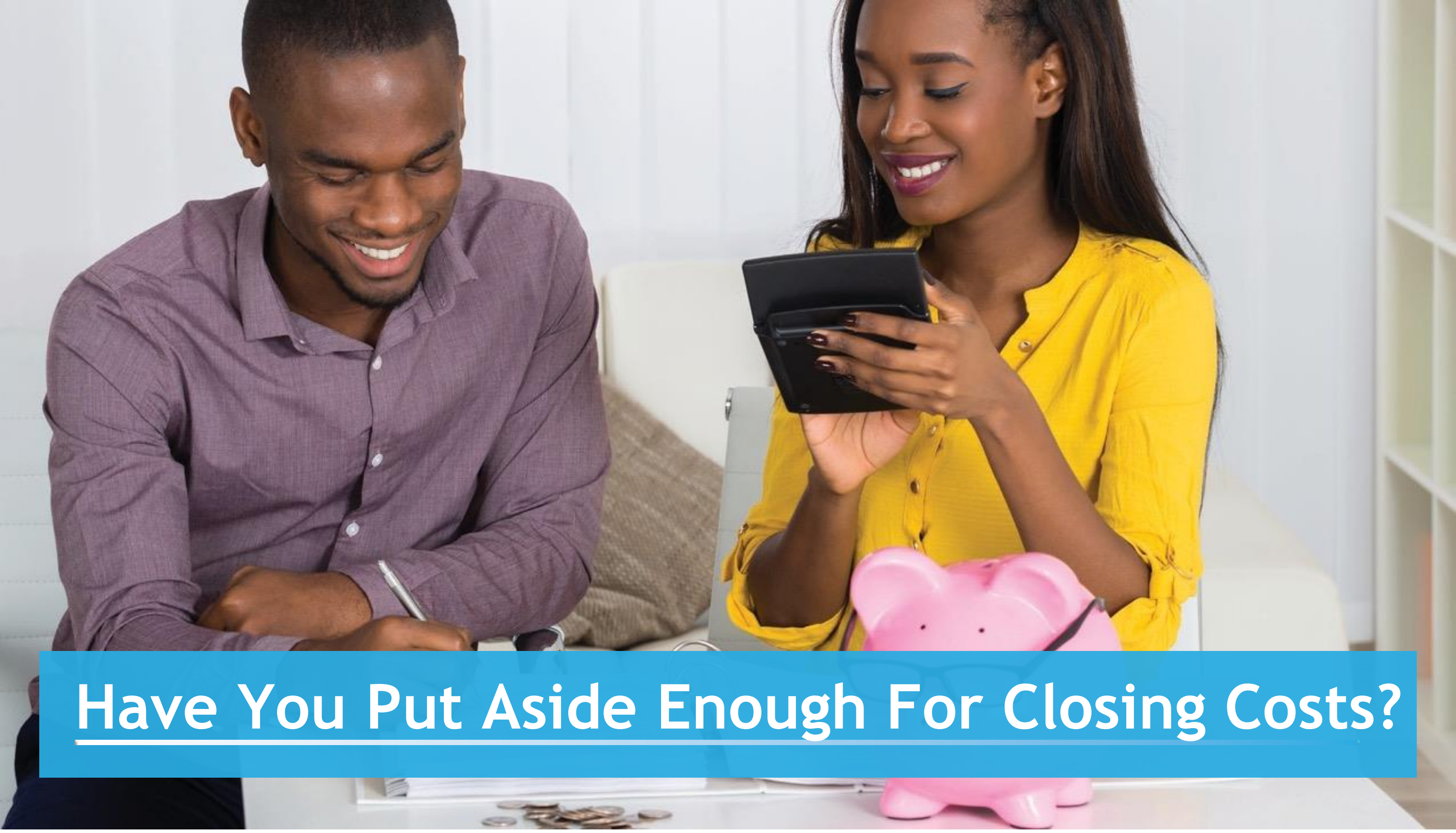
The housing crash that mandated that banks be extremely strict on paperwork requirements also allowed you to get a mortgage interest rate around 4%.

The friends and family who bought homes ten or twenty years ago experienced a simpler mortgage application process, but also paid a higher interest rate (the average 30-year fixed rate mortgage was 8.12% in the 1990s and 6.29% in the 2000s).

If you went to the bank and offered to pay 7% instead of around 4%, they would probably bend over backward to make the process much easier.

Bottom Line

Instead of concentrating on the additional paperwork required, let's be thankful that we are able to buy a home at historically low rates.



Have You Put Aside Enough For Closing Costs?

There are many potential homebuyers, and even sellers, who believe that you need at least a 20% down payment in order to buy a home or move on to their next home. Time after time, we have dispelled this myth by showing that there are many loan programs that allow you to put down as little as 3% (or 0% with a VA loan).

If you have saved up your down payment and are ready to start your home search, one other piece of the puzzle is to make sure that you have saved enough for your closing costs.

Freddie Mac defines closing costs as follows:

> *"Closing costs, also called settlement fees, will need to be paid when you obtain a mortgage. These are fees charged by people representing your purchase, including your lender, real estate agent, and other third parties involved in the transaction.*
>
> ***Closing costs are typically between 2 & 5% of your purchase price****."*

We've recently heard from many first-time homebuyers that they wished that someone had let them know that closing costs could be so high. If you think about it, with a low down payment program, your closing costs could equal the amount that you saved for your down payment.

Here is a list of just some of the fees/costs that may be included in your closing costs, depending on where the home you wish to purchase is located:

- Government recording costs
- Appraisal fees
- Credit report fees
- Lender origination fees
- Title services (insurance, search fees)
- Tax service fees
- Survey fees
- Attorney fees
- Underwriting fees

Is there any way to avoid paying closing costs?

Work with your lender and real estate agent to see if there are any ways to decrease or defer your closing costs. There are no-closing mortgages available, but they end up costing you more in the end with a higher interest rate, or by wrapping the closing costs into the total cost of the mortgage *(meaning you'll end up paying interest on your closing costs)*.

Home buyers can also negotiate with the seller over who pays these fees. Sometimes the seller will agree to assume the buyer's closing fees in order to get the deal finalized.

Bottom Line

Speak with your lender and agent early and often to determine how much you'll be responsible for at closing. Finding out you'll need to come up with thousands of dollars right before closing is not a surprise anyone is ever looking forward to.

Ready To Make An Offer? 4 Tips For Success

So you've been searching for that perfect house to call a 'home' and you've finally found it! The price is right and, in such a competitive market, you want to make sure you make a good offer so that you can guarantee that your dream of making this house yours comes true!

Freddie Mac covered *"4 Tips for Making an Offer"* in their latest *Executive Perspective*. Here are the 4 tips they covered along with some additional information for your consideration:

1. Understand How Much You Can Afford

> *"While it's not nearly as fun as house hunting, fully understanding your finances is critical in making an offer."*

This 'tip' or 'step' really should take place before you start your home search process.

Getting pre-approved is one of many steps that will show home sellers that you are serious about buying, and will allow you to make your offer with the confidence of knowing that you have already been approved for a mortgage for that amount. You will also need to know if you are prepared to make any repairs that may need to be made to the house (ex: new roof, new furnace).

2. Act Fast

> *"Even though there are fewer investors, the inventory of homes for sale is also low and competition for housing continues to heat up in many parts of the country."*

The inventory of homes listed for sale has remained well below the 6-month supply that is needed for a 'normal' market. Buyer demand has continued to outpace the supply of homes for sale, causing buyers to compete with each other for their dream home.

Make sure that as soon as you decide that you want to make an offer, you work with your agent to present it as soon as possible.

3. Make a Solid Offer

Freddie Mac offers this advice to help make your offer the strongest it can be:

> *"Your strongest offer will be comparable with other sales and listings in the neighborhood. A licensed real estate agent active in the neighborhoods you are considering will be instrumental in helping you put in a solid offer based on their experience and other key considerations such as recent sales of similar homes, the condition of the house and what you can afford."*

Talk with your agent to find out if there are any ways that you can make your offer stand out in this competitive market!

4. Be Prepared to Negotiate

> *"It's likely that you'll get at least one counteroffer from the sellers so be prepared. The two things most likely to be negotiated are the selling price and closing date. Given that, you'll be glad you did your homework first to understand how much you can afford.*
>
> *Your agent will also be key in the negotiation process, giving you guidance on the counteroffer and making sure that the agreed-to contract terms are met."*

If your offer is approved, Freddie Mac urges you to *"always get an independent home inspection, so you know the true condition of the home."* If the inspection uncovers undisclosed problems or issues, you can discuss any repairs that may need to be made with the seller, or cancel the contract.

Bottom Line

Whether buying your first home or your fifth, having a local real estate professional who is an expert in their market on your side is your best bet to make sure the process goes smoothly. Let's talk about how we can make your dreams of homeownership a reality!

CONTACT US TO TALK MORE

I’m sure you have questions and concerns…

We would love to talk with you more about what you read here, and help you on the path to buying your new home. Our contact information is below. We look forward to hearing from you soon. Call 636-532-4200

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