Your REALTOR:

Dennis Kuty

November 2021

REAL ESTATE Update™

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Safety Tips for Showing Your Home

The following are some general safety tips when you show your home.

Put Certain Items Away

There are some items you don't want to have on display during showings. Your valuables and heirlooms are more obvious, but there are less obvious things to put away. Prescription pain medications are one example. Your mail and bills are other things to put away in preparation for a home showing.

Use Smart Home Technology

You might consider using smart home security while your home is on the market because this is when it's especially vulnerable to various threats. Plus, if you add some safety and security features, it can make your home more appealing to buyers. At a minimum, using a smart lockbox is a good idea because it gives you control over who comes into your home no matter where you are.

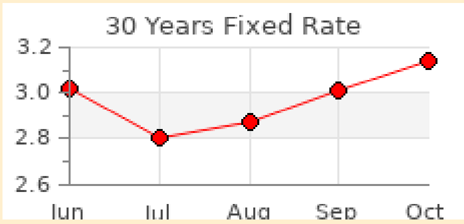
Set Up Your Home For Contactless Showing

If you're a seller you might request that your real estate agent sets up your home for contactless showings. To do that, your agent might have their own strategies, but recommendations include opening all the doors and cabinets and turning on all the lights. Your agent can also pull all shades so that buyers can see everything without coming in contact with high-touch surfaces.

You can also do these things as a homeowner. Think about the touchpoints throughout your home and how you can help people avoid them when they look at your home.

Mortgage Rates
U.S. averages as of November 2021:

30 yr. fixed: 3.14%
15 yr. fixed: 2.37%
5/1 yr. adj: 2.56%



Credit Inquiries: Hard, Soft and No In-Between

A credit inquiry is simply a third party looking at your credit report. There are two such types of credit inquiries: a hard and a soft inquiry. There is no third inquiry. No 'In-Between' type of inquiry. Credit inquiries can have an effect on your overall credit scores, but not all inquiries will.

A soft inquiry is one where various creditors are curious about offering you a new credit account. A soft inquiry would be something like a credit card company offering you the opportunity to open up a new account with them.

A hard inquiry is one where you make a direct request for a new credit account. When you make an unsolicited request for new credit, it's considered a hard inquiry. It's a way for someone to build a credit history and boost credit scores.

An occasional request for new credit won't really impact credit scores one way or the other. Multiple requests for new credit within that same period might cause creditors to think there's some financial difficulties in the near future, such as being suddenly unemployed. Multiple hard requests for new credit will in fact cause scores to falter.

What is An All-Cash Offer When Buying a Home?

If you've ever watched a real estate show, particularly one that centers on the luxury market, you've probably heard quite a few references to all-cash offers. In the current market with low inventory and bidding wars, all-cash offers are a popular way for buyers to compete.

The Basics of An All-Cash Offer

An all-cash offer means that a buyer plans to pay cash for the home they're putting an offer on. The key here is that the buyer, in doing so, can prove they have the money in the bank to do that. A cash offer is appealing for a seller because it makes for a faster process with fewer chances for something to go wrong along the way.

If a buyer plans to get a mortgage, they're riskier for a seller. The less financing has to be involved in a deal, the better from the seller's perspective.

If someone buys a home without financing, they'll either use a cashier's check or transfer the funds electronically.

Since no lender is involved, the closing time with cash purchases tends to be much faster. These deals can close in just two weeks if necessary. Those two weeks are just enough time to clear any liens, prepare the paperwork and provide insurance.

For a financed purchase where the buyer is getting a mortgage, the closing time is, on average, at least 30 days. It can be as long as 45 to 60 days to closing.

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How Do Student Loans Affect Your Ability to Buy a Home?
By Ashley Sutphin

As of August 2021, student loan debt in the U.S. totals $1.73 trillion, and it’s growing at a rate six times faster than the country's economy. There are more than 43 million student borrowers in debt, and they have an average debt load of $39,351 each.

There are a lot of negative ways carrying student loan debt can impact your life. One of those is affecting your ability to get a mortgage and buy a home. The following are more specific things you should know about your student loan debt and its effects on your borrowing ability.

Does Student Loan Debt Affect Your Ability to Buy a Home Directly?

Mortgage rates continue to hover at lows, so you might want to consider buying a home, especially if you’re currently a renter. Student loan debt can affect whether you qualify for a mortgage and your interest rate. With that being said, it doesn’t affect your ability to get a mortgage any differently than other types of debt.

For example, if you had credit card debt, it would affect you the same way as the student loan debt more or less, in that it’s still something you have to repay. A lender, when reviewing mortgage applications, considers all of the current monthly payments you’re obligated to make. They’ll then determine whether or not they think you could take on another payment.

If you qualify under the lender’s standards, they’ll decide on an interest rate. Having student loan debt doesn’t automatically disqualify you from getting a mortgage, but it can.

Debt-to-Income Ratio

The critical issue with student loan debt or any other financial obligation is how it factors into the debt-to-income ratio. The debt-to-income ratio assesses whether you’d be able to keep up with your current payments and make a new one for a home loan.

The calculation is made by adding up your current debt payments and your anticipated mortgage. Then, that number is divided by your gross monthly income. Gross monthly income is the amount you earn before deductions and taxes. If your debt-to-income ratio is over 43%, most lenders won’t approve you for a mortgage. The ideal spot is at or below 36%. The maximum for monthly payments related to a mortgage, according to most experts, should be less than 28%. What matters isn’t your overall amount of debt in this calculation but rather what you’re responsible for paying every month.

Flexibility in Payments

With the above in mind, if you want to qualify for a mortgage with student loan debt, one option might be changing your student loan repayment plan, especially if you have federal student loans. You could opt for a graduated or extended repayment plan. You still have to pay the same principal amount, and it will take you longer to pay the loans off, but a lower payment may reduce your debt-to-income ratio.

FHA Changes

If you’re considering an FHA loan, in the summer of 2021 it was announced there would be a change in the way student loan debt is calculated as part of the debt-to-income ratio. The change makes it easier for some homebuyers who have student loan debt to get an FHA loan.

Previously, before the changes, an FHA lender had to calculate your monthly student loan payment at 1% of the outstanding balance. Now, the monthly payment amount used in calculating debt-to-income is the same as a homebuyer’s actual student loan payment, which tends to be lower.

Effects on Credit Scores

One other thing to note is that if you have student loan debt, it may not just affect your ability to qualify for a mortgage because of your debt-to-income ratio. Your existing debt affects your credit score, which then, in turn, is used by mortgage lenders.

For someone with a low credit score, an FHA loan might be an option. FHA loans may be available if your score is as low as 500 to afford a 10% down payment. Overall, student loans don’t inherently affect your ability to get a mortgage, but in multiple indirect ways, they can and do.

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Getting Help with a Down Payment
By Ashley Sutphin

A down payment is something you're likely going to need to get a mortgage to buy a home unless you're using a Veterans Affairs (VA) loan. Saving up for a down payment is one of the more significant barriers for many people that prevents them from achieving homeownership.

A down payment is an initial payment you make when you buy a house. Down payments are usually calculated as a percentage of the purchase price. The amount can be as little as 3%, but conventional mortgages are generally around 20%.

The specifics of a down payment requirement depend on the type of mortgage you're applying for, the kind of property you're buying, and your financial situation.

If you can make a larger down payment, you might be able to get a lower interest rate or buy a more expensive house. Large down payments can also mean you're responsible for smaller monthly mortgage payments.

Lenders require down payments because it helps reduce their risk exposure. You're investing in the home, so if you were to stop making your mortgage payments, you'd be walking away from a lot of money. Down payments also reduce how much a lender has to give you to make the purchase.

Not everyone has a large chunk of cash sitting aside to use to buy a house, however. There are down payment assistance programs available, some of which are detailed below.

The Basics of Down Payment Assistance Programs

Down payment assistance programs usually come from state housing finance agencies. Sometimes these programs are also managed and offered by cities and counties and nonprofit organizations.

Types of assistance might include:

• Grants, which are a gift of money that doesn't need to be repaid.

• Forgivable, zero-interest loans, which don't have to be repaid as long as the borrower still owns the home and lives in it after whatever the period is—usually somewhere around five years.

• Deferred payment, zero-interest loans, often require no payments until the home is sold, the mortgage reaches the end of its term or the mortgage is refinanced.

• Low-interest loans are available and have to be repaid over a certain period of time. These help homeowners spread their down payment and closing costs over a more extended period rather than having to come up with the money all at once.

Who Can Access Down Payment Assistance

Most programs offering down payment assistance are geared toward first-time buyers, but not all. Even if you've already owned a home and a program says it's for first-time buyers, often the program will define a first-time buyer as someone who hasn't owned a home in the past three years. There are also programs for specific demographics, like teachers or first responders.

Most down payment assistance programs will require that you complete specific steps, which vary depending on the program itself. For example, you might have to meet income limits or take a homebuyer education course. You could be required to buy in a particular location or stay below a certain maximum purchase price. Sometimes you'll have to contribute your own money to your down payment too.

How Can You Find a Program?

If you're interested in learning more about down payment assistance programs, you can contact the housing finance authority in your state or your local city or county government. The U.S. Department of Housing and Urban Development (HUD) also has state-specific information.

The Consumer Financial Protection Bureau has a tool that will link you to housing counselors where you live.

If you are going to apply for a mortgage and use down payment assistance, you'll have to find a list of mortgage lenders who are approved to work with that particular program. Often, the local agencies and programs assisting can connect you with experienced loan officers.

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When Refinancing, Are You Just Starting All Over?
By David Reed

When refinancing a mortgage, it’s usually because rates have dropped but there are other reasons as well. You might want to change the term of your loan, say switching from a 30 year loan to a 15. Or, maybe there’s a balloon payment coming up soon that you want to avoid. Maybe there are some marital matters to take care of and there’s a need to get someone completely off the current note. Whatever the reason, some may ask if refinancing is simply starting all over with a brand new loan. The answer is no, but there needs to be some other issues addressed.

For example, someone who took out a 30-year fixed rate loan a few years ago and decides to refinance to a lower rate, but still keep the original 30 year term might not enjoy the full benefits of refinancing. For example, someone who is five years into a 30 year term and refinances directly into a brand new 30 year term is effectively taking on a 35 year term. So with this example someone is in fact starting all over. But it doesn’t have to be this way. There are other choices that avoid ‘starting all over.’ This entails choosing the right term during a refinance.

Say someone is five years into a 30 year mortgage. Instead of taking out a brand new 30 year loan, there is an option for a 25 year term. In this example, while there will be a brand new mortgage, the initial 30 year term is left alone and replaced. The very same can be said with a 20, 15 or 10 year term. These are all some scenarios you need to talk discuss with your loan officer.

Okay, but what about someone who is 12 years into a 30 year loan? There are also lenders who will put you into an 18 year loan term instead of a 10, 15, 20 or 25 year. Whatever the remaining term of the loan, a lender can craft a new loan term to match your scenario. You’ll get the lower rate without having to ‘start all over again.’

One important thing to note, and again is something to discuss with your loan officer, the reason the 30 year term is by far the most popular when taking out a new mortgage is it provides the lowest monthly payment among traditional home loans. On the flip side, due to the longer term and lower payments, more interest is paid on the 30 year term compared to others. In addition, shortening the loan term will work in the opposite way. The monthly payment will go up, not down. Even if the new rate is lower than the existing one.

Finally, you’ll need to consider all the closing costs associated with getting a new mortgage. Remember, there really isn’t a ‘no closing cost’ mortgage, it’s simply an adjustment in the rate. You might be able to come to the closing table with less cash to close, but over time the higher payments will negate the advantage of the no closing cost feature.

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Rolling Credit Card Balances Into a Cash-Out Refinance: Worth It?
By David Reed

There's certainly no shortage of articles about when and how to refinance. It's true in this column as well. Whether or not to refinance a mortgage is a good thing or not is less about the actual interest rate and more about the monthly savings compared to the closing costs associated with getting the new mortgage to replace the existing one. When you hear advertisements on the radio or watch a TV commercial, mortgage companies talk about how low rates are and if you currently have a mortgage you should think about refinancing. Fact is that rates have been in their current range for so long that many who could benefit from a refinance have already done so.

But many of these same advertisements talk about rolling in high interest card debt into a new mortgage when refinancing. This transaction is called a 'cash out' refinance. The pitch sounds attractive. The average interest rate on all types of credit cards hovers near 20% while the average mortgage rate might be close to 2.5%. It's promoted as a 'no brainer' and it's easy to see why. 20% is more than 2.5%. But it's also important to dissect the possible benefits of a cash out refinance which you can do by speaking with your loan officer.

Let's look at some numbers together. Let's take an existing $250,000 mortgage with a 30 year fixed rate of 4.00%. If current 30 year rates are 2.5%, that works out to a pretty good savings, especially so if the existing note is relatively new. If the existing mortgage is fairly seasoned and well into the term of the loan, it might not be a good idea to refinance after all. Again, this is something to discuss with your loan officer.

But let's say you did the math and refinancing from 4.0% to 2.5% is in your best interest. No pun intended. On a new 30 year mortgage and $250,000 at 2.5% the monthly payment drops to $987. Now, what about refinancing that credit card balance of $15,000, completely paying off the card. Interest on this card is 20% and now you're essentially replacing that 20% with 2.5%. If you roll $15,000 into $250,000, the new mortgage is then $265,000. $265,000 at 2.5% yields a payment of $1,047, with an increase of $60 per month. That's much lower than the minimum current credit card payment.

Here's the thing to look out for. Yes, the total minimum payment is lower than the mortgage and credit when viewed separately. But you're also extending the term of the card payment out to 30 years. The $15,000 balance turns into $21,600. If you roll in an automobile loan and other outstanding credit balances the difference will be much greater. $40,000 in credit card debt in the same scenario means a new monthly payment of $1,145. I'll let you do the numbers on this one, if you want.

One final note, if you transfer credit card balances into a new mortgage and then run up the card balance once again, you've really not accomplished as much as you might have initially thought. If reducing credit payments each month is your goal, after transferring the balance you might think of cancelling the credit card account altogether.

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