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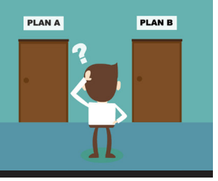
Real estate finance insight...

- Market Update
- The Power of Pre-Approval
- Financing Second Homes
- Keep Mortgage in Retirement?
- Options for Forbearance Exits

Options for Borrowers

Exiting Home Loan Forbearance



LOWER YOUR PAYMENT?
SAVE INTEREST?
PAY OFF FASTER?
YOU CAN. JUST CALL.

Our financial reviews are always complimentary, and we know your time is valuable, so the coffee is on us. Sharing coffee gives us the opportunity to get to know you and your financial aspirations in greater detail. This allows us to recommend solutions that work for you today, and also five, ten or 30 years from now. Just mention this newsletter offer and we will find a time to meet.

A key part of the mortgage industry's response to the COVID-19 pandemic was the fast rollout of forbearance programs. These offered families who suddenly lost their income lenient policies for handling missed payments. This kept families away from the risk of bankruptcy until jobs came back and their income revived. About 5% of homeowners with mortgages asked for forbearance, for up to 6 months (12 months with extensions). The clock started when the homeowner requested forbearance, so those who entered forbearance early are now nearing their end dates.

If you're exiting forbearance, your options for repayment depend on your specific loan servicer, and may include lump-sum repayment of missed payments, intermittent extra payments, extended loan terms, deferral until sale or refinancing, a loan modification, or reduction in monthly payments. The best option for you will depend on your financial situation. Be sure to consider all your options! Your loan servicer is in charge of the process, but there are sometimes delays given the volume of calls they get. If you're feeling lost in the process, reach out to us and we'll do our best to provide guidance you and help create a plan that fits your situation.

QUARTERLY UPDATE • FALL 2021

ECONOMY & MORTGAGES

Mortgage Outlook

in a Long-COVID Economy

What's Next?

Welcome to a post-COVID-19 world with COVID still lurking. The US economy is recovering, but the COVID outlook is shaky, and other factors have made the prediction business difficult.

Where are Housing Prices Headed Next?

Home prices in every state continue to set new records, fueled by tight inventory, low mortgage rates, the "wealth effect" of stock market gains, increased savings, and the continued wave of millennial household formation. The usual summer buying season may be extended, since many prospective buyers have come up empty-handed thus far. Expect some to keep trying.

That said, in some markets there may be signs of buyer fatigue. "In June we entered a new phase of the housing market," said Daryl Fairweather, chief economist of Redfin. "Home sales are starting to stall because prices have increased beyond what many buyers can afford." Increasing inflation may further strain buyers' budgets and keep a lid on future prices.

Housing inventory will remain tight. Besides a shortage of new construction, older homeowners who recently refinanced their mortgage to near 3% may now be staying put longer before downsizing. As we note inside on page 3, carrying mortgages well into retirement is more common than ever.

Avg. Change...	30-Yr Fixed	15-Yr Fixed
vs. One Year Ago	↓0.13%	↓0.38%
vs. the Jan 7, 2021 Low	↑0.21%	0.00%

Source: Freddie Mac, Primary Mortgage Market Survey, U.S. Average Conventional Mortgage Rates, week ending 8/19/21. "Jan 7, 2021 Low" rates, week ending 1/7/21. Your rates will differ. Not a commitment to lend. Credit on approval.

Will mortgage rates stay rock bottom?

Following mortgage rates this summer has been a bit like viewing a 3-ring circus, with multiple influencers working in opposite directions.

As COVID fears subsided early this summer, rates initially headed up in response. But the new Delta variant has spooked the markets and driven the 10-year Treasury yield and mortgage rates down again. Further fueling this is the Federal Reserve's cautious economic outlook and their plan to keep benchmark rates low into next year.

On the other hand, what's threatening to push rates upward is the specter of inflation, the magnitude of which will depend on manufacturing, inventories, income, rents, and government spending. Another upward threat is that the Fed is planning to scale back its purchase of mortgage-backed securities, but the timing for this is uncertain.

Overall, we expect these factors to stay roughly in balance, with average 30-year rates continuing near historical lows in the low 3% range through the end of the year (with 15-year and best-execution 30-year rates well below that).

Lock In These Rock-Bottom Rates

Are you still on the fence? Well, hop down and call us for a chat. With rates this attractive, it could be in your best interest!

Aloha!

For more than two decades, Myers Capital Hawaii has established itself as a leading mortgage and financial services company. Located in downtown Honolulu, we take an all-encompassing approach to solving your financing needs. We specialize in providing residential and commercial mortgages, business financing, and real estate advisory services. Whether you are a first-time home buyer, seasoned real estate investor, or business owner who needs capital, we can help. As a team, we recognize that exceptional service is a must, and we hope to be your #1 resource in helping you achieve your financial goals.

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MYERS CAPITAL HAWAII

THE POWER OF PRE-APPROVAL

PRE-APPROVED

In this tight seller's market, home buyers need every edge, and an essential one is being able to show that you have financing ready to go. Some lenders casually use "prequalification" and "pre-approval" interchangeably, but they are a 2-step sequence.

Step One is Prequalifying: It's for internal use only, is based on estimates (not documents), and serves to give you a rough idea of how much you can afford. But it's not enough to make an offer in today's market.

Step Two is Pre-approval: This uses documentation to confirm your financials, allowing us to have everything we need to approve a loan, except the details of the actual property you'll be buying (which is pending). It shows that you are capable of closing after an offer is accepted.

Today, an offer that doesn't have a convincing loan pre-approval is unlikely to win against all-cash offers. If you know a person who is house hunting without one, connect them to me to get both steps done quickly.

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Dreaming of a Second Home?

Tougher sledding but still a historic opportunity

The pandemic has created a surge of interest in second homes. Different from investment homes, they traditionally are vacation spots where you go to get away, but now those pleasant hideaways can be set up as work-from-home locations.

A Second Home, Defined.

For conventional second home financing, you must occupy the property for some portion of the year, and it's restricted to one-unit dwellings. It must be suitable for year-round occupancy. You also must have exclusive control over the property, and it can't be a rental property or timeshare, nor can you give away control over occupancy to a management company. It also must be far enough away and make sense as a second home (i.e., not a similar home in a nearby suburb). These property rules are important: mortgage underwriters have seen it all, and if it doesn't pass the smell test, the property will be seen as an investment property (i.e., higher down payment and rates).

Interestingly, you don't need to have a primary residence to qualify for second home financing – you can even rent or live with relatives and purchase a second home. This can be useful if affordability is difficult where you live and work, but you want to own property elsewhere.

Making the Numbers Work.

In recent months, Fannie Mae and Freddie Mac (which purchase the lion's share of second home loans) have restricted their purchases, effectively bumping the rate by another 0.5%-0.75% on these types of loans. Closing costs are also higher, and while a minimum 620 credit score is usually required, 700 or higher is recommended. Minimum down payments are larger at 10% to 20%. Some clients use a cash-out refinance or home equity loan from their primary residence to come up with the down payment. Since rates are near historical lows, it can still be a historic opportunity if you can make the numbers work.

Buying with Zero Down Payment.

There are no government-backed (FHA, VA, USDA) options for second homes, so there are no zero-down payment or low down payment options. However, it is possible to use a government-backed loan if you make your planned second home your primary home. At that point, you could use a USDA or VA loan with a 0% down payment or a FHA loan with a 3.5% down payment (if you meet requirements). You'd have to meet the occupancy test, of course, but in today's work-from-home world, it's being done by some!

A few other important considerations.

Besides the down payment and monthly payments, you'll need to consider furniture (if needed), HOA fees, insurance, utilities, and property taxes. You'll also need to think about how you'll handle security and maintenance, which will depend on your unique situation. And, just like on primary residences, the need for the occasional major repair still happens (think: new roof!), so plan for that as well.

We can help.

Even though financing a second home comes at a bit of a premium, the bottom line is that, because rates in general are so good, it could be the ideal time to run the numbers. We're experts in financing second homes, so if you're the least bit curious, give us a call.

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Should You Retain or Pay Off Your Mortgage In Retirement?

Should you keep a mortgage in retirement? The traditional answer has always been "Pay it off and retire debt-free!" In 2021, though, the real advice is "it depends, and you have to do the math!"

If your home equity is most of your retirement fund, and you can't afford your current mortgage payments, you may have a few options:

- If your mortgage rate is above 3.5%, a refinance could result in lower payments that you can afford, and allow you to stay in the home.
- You could consider a reverse mortgage loan, which allows you to stay in the home and receive monthly cash payments or use it as a line of credit. Repayment is not due until the home is sold, the last borrower passes away or permanently leaves the home. The two most popular are the HECM loan (Home Equity Conversion Mortgage, insured by the FHA) and, for high-value homes, jumbo or proprietary reverse mortgages.
- Alternately, you could sell the property, downsizing to a home and mortgage you can afford, or simply sell and live off the remaining equity (as a renter).

If your home equity is most of your retirement fund, and payments are relatively small (or none),

you could do a cash-out financing and tap into the equity to supplement your budget (which would then include a larger mortgage payment of course).

If you have retirement funds in addition to home equity, you may have more options:

- Refinance to today's low rates (especially if your current rate is 3.5% to 4% or higher), giving you a lower payment each month.
- Downsize. Selling unlocks the equity, and you can use some to buy a new, smaller home.

Seniors With Mortgages Now Quite Common

While living debt-free is appealing, in our historically-low interest rate environment, it may make sense to keep the mortgage or take out a new loan to downsize rather than retire debt-free -- especially if you can find yields on your investments which exceed your mortgage rate. And yes, retirees can get home loans! Withdrawals from retirement accounts, pension payments and social security all are income that could help you qualify.

It is better to make plans before you retire, and there's no time like the present, so give me a call.

Thank You!

It's an honor to help you with your home financing needs. Change is constant, so those needs are likely to change along the way. Whether it's reducing your payment, paying off faster, tapping into equity, or real estate investments, we're here to provide financing that helps you achieve your financial goals. And, if you have family and friends who need experienced guidance, I'd be honored to help them as well. Call me for a discussion that will be time well-spent.

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