Myers Capital Hawaii
Reed Myers
841 Bishop St Ste 2100
Honolulu, HI 96813

NMLS# 322195 (Originator) 1662480 (Company)

Real estate finance insight...

- Market Update
- Is it a Buyer's Market Yet?
- Polishing up Your Credit and DTI
- Resist Mortgage Rate Lock
- ARM Yourself With a Great Deal

WONDERING HOW TO BUILD YOUR REAL ESTATE PORTFOLIO TODAY? LET'S TALK.

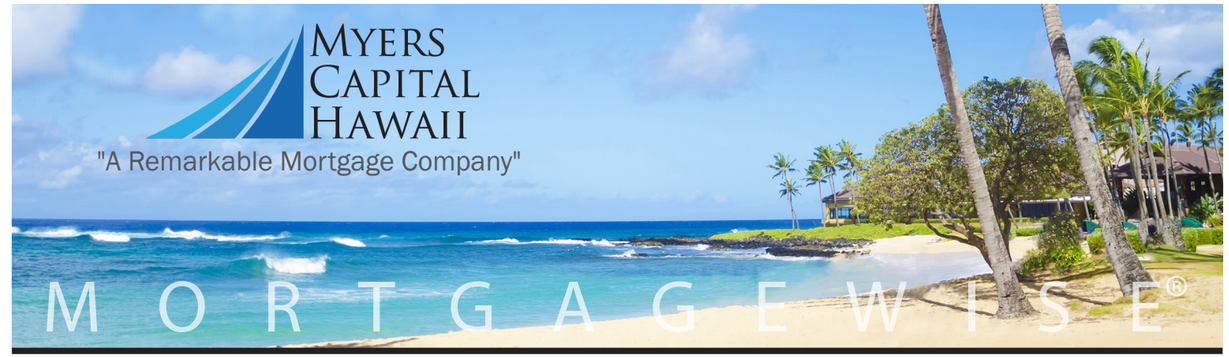
Our financial reviews are always complimentary, and we know your time is valuable, so the coffee is on us. Let's connect, and we can discuss your financial aspirations in greater detail -- virtual or in-person, the coffee (or Starbucks card) is on us! We can recommend solutions that can help you today, and longer term. Just mention this newsletter offer and we will find a time to meet.

We were right. In past issues of this newsletter, we noted that rising rates should revive interest in adjustable rate loans. Lo and behold, adjustable rate loans constituted over 10% of all home loan applications over the last several weeks, and growing.

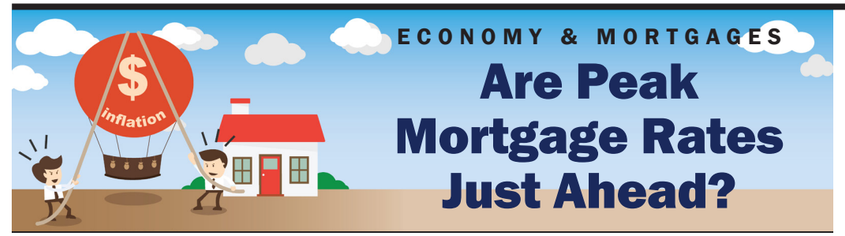
Why? Start with lower rates. Hybrid ARMs currently offer rates that are about 1% lower than 30-year fixed rate loans. And with hybrid ARMs, that lower rate is fixed for 3, 5, 7 or 10 years - - which you can match with the time you expect to be in the home. For that entire initial fixed rate period, you would save money on interest versus a 30 year fixed!

As we've pointed out elsewhere in this issue, we may be nearing the top of this current interest rate cycle. Borrowers choosing ARMs know that interest rates could drop during their initial 3-10 year fixed rate period. So they could save money on interest payments for the next few years and then refinance when rates drop enough to lock in a lower rate, perhaps even on a 15-year fixed rather than a 30-year fixed.

At the end of your fixed-rate period, you will have paid down your loan balance, especially if you "reinvest" your monthly interest savings into extra principal payments. When you owe less money, you naturally pay less interest! Call me to discuss this in detail!



QUARTERLY UPDATE • WINTER 2022



ECONOMY & MORTGAGES

Are Peak Mortgage Rates Just Ahead?

Inflation remains in control of the economy, which edges closer and closer to being officially defined as being in a recession. The Fed has responded with four consecutive 0.75% interest rate hikes, the most recent one in early November. Inflation is still running high, so expect more increases to follow. While consumers are grumbling about prices, the data shows that they're still spending, in part because a majority of homeowners have a low-rate mortgage, which acts as a hedge against inflation.

How Long Will Rate Increases Continue?

The final act has likely now begun. We may see one more 0.75% increase by the Fed, but recent comments indicate that it's becoming concerned about the lagging effect of multiple rate hikes, plus their overall cumulative impact, which tends to sneak up on the economy. Shelter makes up over 30% of the consumer price index, and softer home prices help drive down rents. Inflation should fall off quickly as other areas of the economy follow suit. Recent layoffs and hiring freezes at major companies indicate that the strong labor market (recently posting a record 10 million job openings) and wage growth are both starting to crack. The Fed will likely stop its attack on inflation in 2023 as a recession takes hold.

Comparison:	30-Yr Fixed	15-Yr Fixed
vs. Long Term Hist Avg	↑ 1.45%	↑ 1.31%

Source: Freddie Mac, Primary Mortgage Market Survey, U.S. Average Conventional Mortgage Rates, week ending 11/10/22. Long term average begins 11/6/92 (30 years) Your rates will differ. Not a commitment to lend. Credit on approval.

How Does a Recession Affect Mortgage Rates?

Over the last five recessions since 1980, mortgage rates have fallen an average of 1.8%, which is helpful for buyers. Many experts think the expected recession will be mild and short.

Things to Keep in Mind

- **Bidding wars are ending**, and you now have more negotiation power. In September, the NAR stated that there were an average 2.5 offers per sale, down from 3.7 the prior September. A Realtor.com survey recently showed that more sellers are accepting contingencies now.
- **Affordability should continue to improve.** Rates also generally also go down as recessions take hold. If you finance at 7% today, you're likely to have an opportunity to reduce that rate with a refinance down the road.
- **Housing prices trend up over time.** A correction now creates opportunities for buyers who should be rewarded as time goes on. A shortage of housing, which we still have, will put a floor under home prices.

Don't let today's higher rates shock you into shelving your plans.

Adapt, adjust, and keep moving forward. We can help you tackle these challenges with a toolkit of options that can enable you to achieve long-term financial and housing goals. Give us a call to set up a time to discuss any thoughts you may be having about moving up, downsizing or investing in new properties!

Aloha!

If you're looking to purchase a primary residence or investment property, don't let rising rates put your plans on hold. We offer an increasing number of creative financing solutions that may offer you new ways to afford a home and manage interest costs. Since 1998, we take an all-encompassing approach by providing expert guidance to help meet your real estate needs and overall financial goals. It's what makes us different as a relationship-based, customer-first mortgage company. We hope to be your #1 resource in helping to achieve your real estate goals. We wish you and your family the happiest holiday season.

Reed Myers

Reed Kawai Myers
Myers Capital Hawaii
841 Bishop St Ste 2100
Honolulu, HI 96813

reed@myerscapital.com
808-566-6611
myerscapitalhawaii.com
NMLS# 322195 (Originator) • 1662480 (Company)

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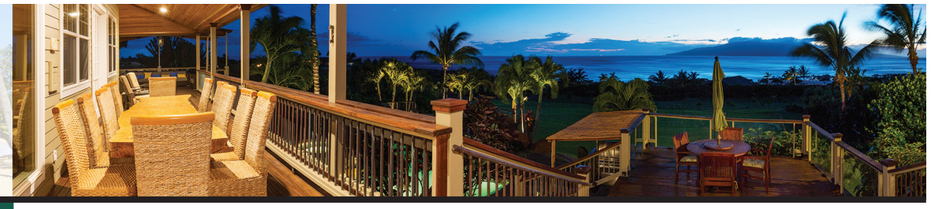

RESIST

MORTGAGE RATE LOCKDOWN MENTALITY

A homeowner with a 3% fixed rate loan will naturally hesitate to give it up. This can "lock" you into your current home even if it no longer fits your family needs. This mental lock distracts you from the fact that your loan financing costs are only one part of the "inputs" related to your housing situation -- think property taxes, sales taxes, utilities, insurance, maintenance, traffic, safety, neighbors, weather, retirement, and other considerations. As a result, while you may be saving on the mortgage payment, you could be expending more than you need to in other areas, particularly if your family needs have recently changed.

It's always a good idea to review your overall real estate strategy regularly, so that a fixation on rate doesn't prevent you from seeing the big picture, pursuing opportunities, and meeting your goals. That means that this is a particularly good time to give me a call to discuss these and other matters!

MBA MORTGAGE BANKERS ASSOCIATION MEMBER

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Polish Up Your Credit Scores and DTI's to Get the Best Rates

With the rise in rates, the power is shifting to buyers in real estate. This could present buying opportunities for qualified borrowers. To get the most attractive financing, though, you will need to keep your financial profile in tip-top shape. Though several factors play a role, high credit scores and low DTIs (debt-to-income ratios) typically dominate the calcuation lenders use in determining your rate.

Take Great Care of Your Credit Score

- Always pay your bills on time. People who never miss a payment date, even making minimum payments, earn higher credit scores.
- Pay down or pay off credit card balances and personal loans. Low utilization of your available credit is a plus with credit agencies. If you use a credit card for all your expenses, and if your utilzation is high relative to your credit limits, switching some spending to cash can help.
- Keep older credit accounts open, and don't keep switching creditors. A long track record of responsible use of credit has great value. If you want to cancel some credit lines, cancel the newer ones first.

Improve Your Debt-to-Income Ratio (DTI)

In getting a mortgage, a lender considers the ratio of all of your current monthly debt obligations (including your new mortgage payment) versus your income. The (rough) rule of thumb is to have your DTI at or below 43% of income. Lower is better, so:

- Pay down outstanding credit card balances.
- Avoid making major purchases with credit for several months before applying for a home loan.
- Consider paying down a car loan. Car loans often carry lower interest rates than other debt so paying down other debt first makes more sense.
- Restructure Federal student loans, if possible. Consolidation of multiple federal loans into one federal loan may allow you to lower your payments by extending the loan term (though your interest costs will increase). This can include income-driven repayment plans that may significantly reduce your monthly payment. You can also combine private and federal loans into one private loan which may save money and reduce those payments.

During the loan process, I also have the option of helping you with a "rapid rescore" with the credit scoring agencies to accelerate the improvement of your credit score. Note: Rapid rescoring may only be done with the help of a mortgage professional, not "credit repair" companies. Also, rapid rescoring is not a means of removing negative information such as late payments or bankruptcies. Contact me for guidance on how, and in what order, to pursue these strategies.

Let's Start Today

Working with me on these improvements is free, and I can help you in many ways. That said, improvements can take several weeks to impact your credit and DTI's, but the efforts are well worth it, because they directly affect the cost of home financing. It's never too early to start, so if buying or investing in real estate is in your future (even a long time from now), let's have a conversation!

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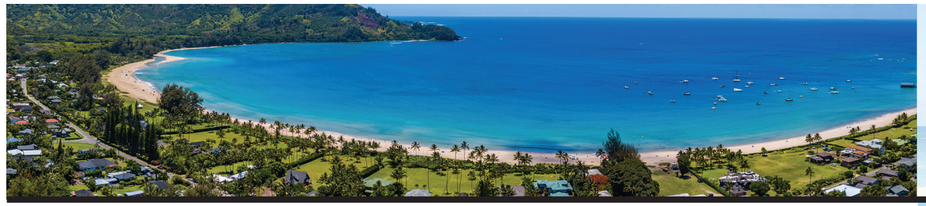

MYERS CAPITAL HAWAII

Is it a Buyer's Market Yet?

The pace of interest rate increases since April has led to one of the fastest shifts away from a seller's market in decades. The speed at which this tectonic shift has occurred has stunned buyers, sellers, and those of us who assist them. Sellers today naturally wish they were selling at the prices from just six months ago, but many are facing the reality that obtaining those prices is no longer realistic.

Indeed, the evidence is piling up that seller expectations have started to shift:

- **An increasing percentage of sellers have dropped their asking prices** since June, when mortgage rates really took off, with about 19.5% of sellers cutting prices in September. This trend has continued and even begun to accelerate.
- **Other home sellers are listing at their desired price, but finally negotiating** – including offering "buydowns" used to lower the buyer's initial loan interest rate, and once again considering offers with contingencies for acceptable home inspections and appraisals.
- **Homebuilders are lowering their prices** on new homes to keep the homes moving, especially on homes recently or nearly completed. Homebuilders need to get those properties sold to recoup their sunk costs.
- **Homebuilders are also once again offering to pay commissions to buyers' agents,** which had not been the case during the last several years of low interest rates and high buyer demand.

While prices are still elevated, and rates are higher, the good news for buyers is that inventory is up +27% as of September (vs a year ago). There aren't actually more homes being put up for sale (new or existing), as new listings are off -10% versus a year ago. But they're sitting around longer on the market, which creates more inventory and opportunities for buyers. As the recession takes hold, fear of job loss will put some buyers on the sidelines, so expect inventory to rise further, putting more pressure on those who need to sell, and leading to even more buying opportunities.

People still need to buy and sell homes, so all of this means that 2023 could be a pretty good year for purchasing real estate. If you or anyone you know is thinking about a purchase in 2023, let's set up a time to talk. Preparing now to take full advantage of the emerging seller's market could pay off handsomely on a nice home in the coming year!

Thank You!

Thank you again for your business. When it comes to financing property, we know the stakes are high, so we go the extra mile to deliver the best programs and advice for your unique situation. Our team of professionals bring experience in all kinds of market conditions. It makes a difference -- whether it's a home purchase, refinance, tapping home equity, or investing. We look forward to speaking with you in the weeks ahead and helping you turn your housing dreams into reality!

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