MYERS CAPITAL HAWAII

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Real estate finance
insight...

- Market Update
- New Qualified Mortgage Rules
- Cash Out Refinance Boom
- Buying in a Tight Market
- New Conforming Loan Limits

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Buying in a Tight Market

Your financing strategy can make the difference

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.

Buying in a seller's market demands excellent preparation and realistic expectations. Your financing strategy is the cornerstone of a successful purchase experience.

- **Sellers value serious, well-presented loan pre-approvals.** A thorough pre-approval means we have looked at everything needed approve you for a loan at a certain purchase price, except of course the info on the actual property itself (you haven't made an offer yet). Some lenders do a "light" pre-approval (pre-approving with insufficient data from you), which can come back to haunt you later and cause the deal to fall through.
- **Have a strategy to beat the competition.** We see multiple offers on nearly every property. We can leave a reserve in your financing plan for escalating your offer if you have to.
- **Be prepared for pushback.** Because of high demand, many sellers today are able to push back on fixing items that come up in the property inspection report. We often recommend a reserve for repairs, especially when shopping for older existing homes.
- **Boost your buying power.** We can help you investigate down payment assistance programs and down payment gifting solutions if needed. This can increase your buying power, reduce the size of your mortgage, or leave you with greater reserves.

Well-prepared, well-coached buyers have advantage in today's market. Let us help you be the most competitive you can be. If you're thinking of buying, please reach out!

EQUAL HOUSING LENDER

QUARTERLY UPDATE

ECONOMY & MORTGAGES

Where Are Rates Headed in 2021?

Vaccine, stimulus bill, and spending offer clues.

In some ways, early 2021 is a continuation of last year's economic conditions. The big driver remains the coronavirus pandemic. The economic recovery largely depends on the speed of the vaccine rollout and a boost from government help to businesses and laid-off workers. As the vaccine lines inch slowly along, Congress dithers its way towards a massive stimulus. Meanwhile we muddle onward.

Housing, on the other hand, continues to be a bright spot since last May. Consumers are benefitting from mortgages rates near record lows, down -0.72% on average* from a year ago, resulting in record refinance opportunities and improved buying power for buyers. We see many borrowers still financing below 3%. VA loan activity has doubled, with rock-bottom rates -- 2020 being the first year the VA issued over 1 million loans.

All indications point to home sales remaining busy, with price increases expected to slow from around +7% in 2020 to around +4% in 2021. That said, a housing bubble it is not. Today, only 43% of Millennials own homes, and millions more are hoping to jump in. That fact coupled with reduced inventory for sale are textbook economic forces that explain rising home prices.

Avg. Change Since...	30-Yr Fixed	15-Yr Fixed
One Year Ago	↓0.72%	↓0.78%
vs Jan 7, 2021 Low	↑0.08%	↑0.03%

Source: Freddie Mac, Primary Mortgage Market Survey, U.S. Average Conventional Mortgage Rates, week ending 2/11/21. "All-time Low" rates, week ending 1/7/21. Your rates will differ. Not a commitment to lend. Credit on approval.

While the Fed remains cautious about the economy and plans to keep short-term rates low for the year, we expect mortgage rates to rise gradually in the months ahead, in line with longer-term rates.

As we've explained before, mortgage rates historically trend in step with the 10-Year Treasury Yield, which is forward-looking. During the gloom of 2020 the two diverged in the second half of the year. The 10-Year yield plummeted below 0.60%, but mortgage rates didn't follow, pausing near the levels we see today. But with last fall's vaccine approvals, the 10-Year climbed back up over 1.10%. The two should remain in sync now, and as economic expectations improve, the 10-Year yield – and mortgage rates – should both rise during 2021.

Another key driver of rising rates is government spending. And a boatload of that may be coming. Massive stimulus efforts means massive bond issuance. When a flood of bonds hits the market, rates tend to rise, to keep investors interested in buying them. And since mortgage-backed securities compete for investor dollars in the bond market, that same dynamic drives up mortgage rates.

That means that if you haven't yet explored a refinance (or if your rate is in the mid-to-high 3%'s or higher), or you're thinking about a move to a new home, time is now really of the essence! Let's make 2021 a year of action. Give me a call to get started!

Aloha!

For nearly two decades, Myers Capital has established itself as a leading mortgage and financial services company. Located in downtown Honolulu, Hawaii, 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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Conforming Loan Limits Increase for 2021

Good news! Limits for Conforming loans will increase for the fifth consecutive year in 2021 in all but 18 US counties. The limit for one-unit homes will increase 7.4% from $510,400 in 2020 to **$548,250** for 2021. Limits for two-unit, three-unit, and four-unit properties are also increased. Loans above these limits are "jumbo loans," which may have tighter loan approval guidelines and/or require a larger down payment. In "high-cost areas" (e.g., around Hawaii, San Francisco, LA, DC, New York City, etc.) the new one-unit maximum will be **$822,375** (150% of $548,250). And remember, loan **limits were eliminated for qualified veterans on VA loans in 2020**.

What all this means is that if you had a loan that was "just above" the old limit, you may now qualify for a Conforming loan, which may feature a lower rate. **Call me for more details** such as which loan limit applies to your county of residence.

Changes Coming for Qualified Mortgages

How do they affect borrowers?

Changes are coming that could affect borrowers getting a new loan. The Consumer Financial Protection Bureau (CFPB) has finalized new rules around the definition of a Qualified Mortgage (QM), a mortgage that meets requirements set forth under the Dodd-Frank Wall Street Reform and Consumer Protection act of 2010 which intends to protect consumers and the financial system from risky lending that contributed to the 2007 financial crisis. Today, borrowers eligible for a Qualified Mortgage need to meet certain risk requirements that determine their ability to repay the mortgage. Loans that meet the QM definition, such as today's conventional conforming loans, generally have a lower risk profile (and thus, relatively lower rates), and can be sold on the secondary market to Fannie Mae and Freddie Mac.

Currently, Qualified Mortgages require that the borrower's Debt-To-Income (DTI) ratio does not exceed 43% (pretax), the lender has not charged more than 3% in points and fees, and that there are no risky terms like negative amortization, balloon payments, or interest-only payments.

Under the new QM rule, the 43% debt-to-income (DTI) threshold is being replaced with a "price-based approach" in determining a loan's QM eligibility. It's a new way of presuming that the consumer has the ability to repay the loan. Specifically, if the annual percentage rate (APR) on the loan does not exceed the average prime offer rate (APOR) by more than 1.5% for comparable transactions on the day the interest rate is set, then it now meets the QM definition. Head spinning yet? Simply put, lenders adjust the rate for a borrower based on the borrower's overall risk profile (based on a long list of measures), with riskier borrowers getting higher rates. Under the new rule, if the rate exceeds the 1.5%-above-average threshold -- the loan is no longer a Qualified Mortgage.

The good news? What all this means is that a borrower's ability to repay is going to be looked at more broadly and flexibly than just using the 43% DTI ratio, when determining whether a loan will be presumed to be a qualified mortgage or not. So, you may have a debt ratio that's above 43%, but other compensating factors could make you a low-risk borrower. Now we can take those into consideration and may still be able to put you in a Qualified Mortgage sporting a lower rate than you would have gotten in a "non-QM" product!

There's also a second rule change that creates a new "Seasoned QM" loan type. It allows lenders to make riskier loans that would otherwise not be a Qualified Mortgage, and "season" them in their portfolio for at least 36 months (i.e., not selling them) while the borrower proves they can perform with minimal payment delinquencies. Once they meet the test, they are deemed a QM loan.

Lenders must transition to the new rules by July 1. With the challenges posed by today's economy, more borrowers need flexibility when financing, and the new rules should definitely help with that.

Whether you're a slam-dunk QM borrower, or non-QM loan candidate, we can help you craft the financing plan that helps you meet your goals at the lowest possible cost. Give us a call to discuss!

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Demand Grows for Cash-Out Refinances

As Home Prices Rise and Rates Stay Low

With housing in strong demand due to low mortgage rates, and supply constrained as noted in our lead article, home values are rising rapidly outside of urban core markets. Industry data source CoreLogic finds that home equity rose by 10.8% over the last year. This puts "tappable equity" that could be cashed out at about $6.5 trillion. And more borrowers are deciding to do just that.

Industry technology firm Black Knight's Mortgage Monitor found that cash-out refinances made up 27% of all of refinances last fall, with an average equity draw of $51,000, the highest level in over a decade. The trend is characterized by two major drivers. One is renovations - - home-office space, backyard upgrades, media rooms, study spaces, and kitchen upgrades -- often inspired by pandemic-driven lifestyle changes. Another key reason is debt consolidation, with borrowers looking to improve credit scores and rebalance their financial footing.

Cash-out refinances replace your existing mortgage with a somewhat-larger mortgage (subject to loan approval, of course), and pays you the difference between the two loans. You can use the cash for anything – home improvements, debt consolidation, or other uses. And if the money is used to buy, build or substantially improve your home, the interest may be deductible. Just don't spend it on things you may regret - - cars, vacations, etc.. And if you're solving credit card balance issues, make it the last time - - and be sure to change your spending habits!

With today's historically-low rates, it's no wonder that cash-out refinances are popular. Depending on your old rate and how much cash you're pulling out, it can be a win-win. Many borrowers are refinancing to a lower rate and pulling out cash from their properties at the same time without significantly affecting their monthly payment!

There may never be a more affordable time to extract home equity, as rates are expected to rise with the easing of the pandemic and a recovering economy. If you have at least 10% equity in your home, based on its value today, and you'd like to improve your home or consolidate debt, let us show you how a cash-out refi could make that possible.

A Cash-Out Refinance Example

Original Home Value	$300,000
Original Loan Amt*	$240,000
Amount Owed at 5 yrs	$219,173
Home Value at 5 yrs**	$365,000
New Cash-Out Refinance	$269,173
- Pay off Original Loan	-$219,173
Cash Out Amount	$50,000

Example for illustration only. *Assumes the old 30-year fixed was at at 4.25% APR. **Assumes 4% annual home value appreciation. Not a commitment to lend; your scenario will differ.

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 friends that 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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