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Real estate finance insight...

- Market Update
- 2022 Conforming Loan Limits
- Dealing With Appraisal Gaps
- Tips for Unmarried Buyers
- Renewed Interest in Renovation

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Pandemic Leads to Renewed Interest in Renovation

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. 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.

Seismic changes in how we work also launched a wave of home renovations. But whether you want to renovate your kitchen, install a home office, or buy a fixer-upper, any major home improvement takes money. How to finance the project?

Basic options include accessing existing equity with a home equity loan or a home equity line of credit. If you have equity, these are simple and straightforward. You keep your existing mortgage in place and use the equity loan for the project. Cash-out refinancing is also an option for those who have enough equity.

There are also several all-in-one renovation and repair loans options. The FHA 203(k), a government backed loan, lets you buy a primary residence and do upgrades at the same time, or even refinance your home and do upgrades. Fannie Mae and Freddie Mac also have their own versions. If you're a Veteran, there is a VA Renovation program that is 100% financing for both purchase and improvements. Each of these programs have variants for smaller cosmetic projects and some for major projects like foundation repairs, large electrical or plumbing jobs, structural repairs, and additions. And you only have one loan to repay. These are meant for upgrades that improve the value of your home, or to replace outdated systems, but they're not for handyman work or do-it-yourself projects. There are also options for financing 2nd homes and investment properties.

If you plan to buy a fixer-upper or renovate in 2022, give me a call to discuss great financing options!

QUARTERLY UPDATE • WINTER 2021

ECONOMY & MORTGAGES

Rates Poised to Rise

Will They Stay Near Historical Lows?

Inflation worries, strange employment trends, energy price increases, battles over mask mandates, and supply chain problems dominate the economic headlines. Housing, however, operates in its own world, and low inventory leading to higher prices continues to be the headline story.

While some of this can be blamed on the pandemic (people sitting tight) and on problems with new construction (a lack of both workers and materials), the broader uptick in prices has been years in the making. Growing populations are intersecting with decades of under-construction, and the resulting price impact is textbook economics.

This hits first-time buyers hardest. "With inventory at only 2.4 months' supply, and median home prices increasing nationally at 13%, it was not surprising to see the first-time homebuyer share of the market drop again to 28% (from 31% last year)," said Mike Fratantoni, SVP and Chief Economist for the Mortgage Bankers Association (MBA).

But Lawrence Yun of the National Association of Realtors expects more supply soon, stating "As mortgage forbearance programs end, and as homebuilders ramp up production, we are likely to see more homes on the market as soon as 2022."

Avg. Change...	30-Yr Fixed	15-Yr Fixed
vs. One Year Ago	⬆ 0.31%	⬆ 0.03%
vs. The Jan 7, 2021 Low	⬆ 0.44%	⬆ 0.19%

Source: Freddie Mac, Primary Mortgage Market Survey, U.S. Average Conventional Mortgage Rates, week ending 11/4/21. "Jan 7, 2021 Low" rates, week ending 1/7/21. Your rates will differ. Not a commitment to lend. Credit on approval.

Where are mortgage rates headed?

Rates are technically up from historical lows set early in 2021, but only barely (see table), and still in the very low 3% range or even less. That's still amazingly low. But where to next?

The bond markets are giving us some clues. The 10-year Treasury rate, which tends to track with mortgage rates, is pointing up since our last issue, though a bit volatile now. Bond traders are also following two key Federal Reserve moves closely:

- This month, the Fed is starting to reduce its purchases of mortgage-backed securities (MBS). This is expected to raise home loan rates as the biggest MBS buyer leaves the market.
- It's also signaling a far-off raising of short-term rates, citing a concern about acting too soon and stifling economic recovery. But, they are starting to hedge about inflation, indicating they may be reconsidering their timing!

That means higher mortgage rates are likely ahead. While this should slow the rate of home price increases, nobody likes to leave historically low mortgage rates on the table. If you're considering a purchase, we may be entering a period where home prices could begin to level off (but probably not drop), and where rates are still in historically-low ranges.

If a purchase or refinance is in your future, this would be an ideal time to talk, so we can get you positioned for success!

Greetings!

I am happy to announce the opening of a new Virginia branch office named Myers Capital Virginia. We currently provide financing for investment property and commercial real estate loans for properties in Northern Virginia, Richmond, Roanoke, and Virginia Beach. With great rates, flexible credit requirements, and fast closings, we can help you start or expand a profitable portfolio of rental properties, purchase a fix and flip home, or secure a bridge loan. As branch manager, I'll provide guidance and excellent customer service to help fund your next real estate purchase or refinance. Wishing you and your family the warmest holiday greetings.

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Early Action on Higher Conforming Loan Limits for 2022

The maximum loan amount for a Conforming loan often goes up annually, announced in late November by the Federal Housing Finance Agency (FHFA). In a significant departure from past years, and to help address the burden of high home prices, lenders are already beginning to announce significant increases in the size of loans on which they will offer Conforming loan rates, without waiting for the FHFA announcement. Most expect the FHFA to come out with a big increase in 2022 Conforming loan limits, driven by huge increases in home prices. This has led to a bit of competition among lenders to be an early mover.

So, what does this mean for borrowers? First, many loans that would have been classified as Jumbo loans are now going to be originated at lower Conventional rates and down payment requirements. Second, many borrowers with "smaller" Jumbo loans can potentially refinance into a conventional loan with a better rate.

Give us a call today if you or someone you know may in a position to take advantage of this!

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Could an Appraisal Gap Threaten Your Home Purchase?

One of the home sale contract contingencies that can threaten a purchase deal in a hot housing market is the appraisal. In a normal market, if the appraisal comes in lower than the agreed-upon purchase price (an "appraisal gap"), it's to the buyer's delight and the seller's despair. But in a red hot seller's market, like today, it's the buyer's problem, since the seller is unlikely to budge on price, and a lower valuation can throw a wrench into the amount the lender is willing to lend on the property. By mid-2021, appraisal issues accounted for 27% of delayed contracts and 14% of terminated contracts (up 9% year-over-year), according to the National Association of Realtors.

Why do some appraisals come in too low?

Appraisers must find recent comparable home sales within a reasonable distance of the property in question. These "comps" must share the characteristics of the property being appraised, with adjustments made for measurable differences. But if home prices are rising rapidly, the comps may have been from home sales that were negotiated two or more months prior, and listed homes may be priced (or even pending) well above recent comps. The appraiser has no hard data to support a higher figure yet. Hence the appraisal gap.

What's the impact on financing?

The home is the collateral for the loan. The appraisal tells the lender how much collateral they have, in the event that the loan isn't paid back. While you may indeed be paying "market price" for the home, if the valuation comes in too low, the lender can adjust the maximum loan amount down enough to keep their loan-to-value ratio in line – the term "value" being defined by the appraisal, not the price you're paying. This means you'll need to come up with a larger down payment.

EXAMPLE	
Buyer's Purchase Offer	$500,000
Original Loan Amt (80% LTV)	$400,000
Original Downpayment	**$100,000**
Appraised Value	$475,000
Appraisal Gap	$25,000
Lender's Revised Loan*	$380,000
New Downpayment	**$120,000**

*80% LTV on Appraised Value

Options for buyers in a hot market.

Aside from paying the difference in cash as a larger down payment, you have a few options.

- One is that you can walk away if you have an appraisal contingency in your purchase offer.
- You can renegotiate the price with the seller, but in a hot seller's market, this is often a non-starter.
- You can ask for a "reconsideration of value", but you'll need to find errors in the appraisal or justify a higher value with relevant data.

Your real estate agent may know of very recent sales that weren't included as comps, especially given how quickly homes are sold today, and they may also know if the comps had circumstances that the appraiser may not have been aware of. That said, experienced local appraisers can usually back up their opinions of value.

Your real estate agent may also suggest negotiating an "appraisal gap guarantee" with the buyer upfront, to guarantee to the seller that you'll make up the difference up to a certain amount, which can help keep deals on track. These require specific language.

We're experts in preparing up front for situations like these, as part of our buyers' financing strategies, so let's talk soon if your plans include making a purchase in the coming year!

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Financing a Home Together Before Marriage?

Things to Consider First

The National Association of Realtors reported recently that close to 10% of homebuyers in 2020 were unmarried couples. This may be because rising rents and low interest rates make homeownership financially more attractive than living together in a rented home or apartment.

Buying property together prior to marriage, however, has challenges that smart couples tackle up front, even though it takes some of the romance out of making such a big commitment -- especially the part where you talk about what happens if you break up or someone dies.

Like any partnership, it's critical to have a written agreement that spells out who is responsible for what today, and in the future. Having those tough conversations before buying the property will avoid a major headache should the relationship change.

We recommend working with a real estate attorney (who we can recommend) to create a property agreement that anticipates the many possible eventualities.

Some questions to think about:

- **What is the ownership share for each partner?** Is it 50/50 or unequal?
- **Who is applying for the mortgage?** If one partner has poor credit, this could be an approach to take, but it puts all the obligation for paying back the loan on the other partner regardless of ownership percentage.
- **What is each partner's expected contribution toward regular and unexpected expenses?** (think: new roof, broken window, regular maintenance, etc)
- **How will you hold title on the property?** The options are sole ownership (often riskier), joint tenancy (equal shares with right of survivorship), and tenants in common (probably the most common for unmarried couples, unequal shares OK). This decision is critical to think through carefully, and the outcomes are different if one partner wants to sell or passes away.

And, the agreement should spell out what happens when you get married!

This gives you a taste for the detailed conversations the couple needs to have before making the commitment to buy a home together. Please call me to talk about all the issues in more detail if you or any family members plan to take this step!

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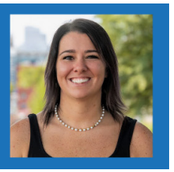

Thank You!

We appreciate the trust you place in us and for the many friends and family you have referred our way. With the dramatic changes in the housing market, solid financing advice is more essential than ever. We're proud to help clients make the best decisions – whether taking advantage of loans to purchase or refinance residential investment property or commercial real estate. If you or someone you know could use some guidance with respect to financing strategies, let's talk!

Tara

TOP ORIGINATORS SCOTSMAN GUIDE

TOP WOMEN ORIGINATORS SCOTSMAN GUIDE