Your Broker:

Rob Cassam

May 2021

REAL ESTATE Update™

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Spring 2021 Real Estate Trends to Look For

Spring is always an interesting and exciting time in real estate, so what are analysts expecting we can see this year?

Increasing Mortgage Rates
The 30-year fixed-rate mortgage is anticipated to average 3.1% through the spring months, while it was averaging 2.9% during the first quarter of the year, according to Fannie Mae. While there may be a slowdown compared to the hot market of the past year, there's an expectation there won't be a major crash. Price appreciation could slow down, and new homes might build up a bit more.

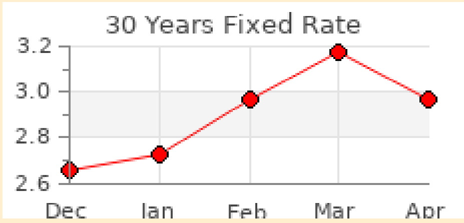
Inventories Could Increase
Homebuyers or would-be homebuyers often felt frustration over the past year. It was difficult if not impossible, to find available properties, and when something went on the market, it would be scooped up in days or sometimes just hours. While there is the expectation that inventories will increase, there may still remain limited options, particularly in some markets.

Millennial Movement
Nearly five million millennials are set to turn 30 this year, and they're now making up the biggest segment of home buyers. Around 86% of younger millennials and 52% of older ones are buying first homes, and some are buying luxury properties that are well beyond what you think of as a starter home.

The Online Trends Are Growing
There are so many ways technology was accelerated in real estate over the past year. From virtual showings to the use of a fully virtual agent to mobile or online closings, there are a lot of ways that technology is facilitating a simpler home selling or buying experience.

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

30 yr. fixed: 2.97%
15 yr. fixed: 2.29%
5/1 yr. adj: 2.83%



PMI - It's Not a Bad Thing

It used to be that a minimum down payment could be 20 or 30% or more, depending upon the individual lender. Yet in the late 1950s, a private company came up with an insurance policy that addressed the hefty down payment issue. Instead of coming to the table with 20% or more for a down payment, a private mortgage insurance policy, or PMI was created. PMI allows consumers to buy and finance a home without a large down payment. Yet sometimes PMI gets a bad rap, as something to be avoided at all costs. That's not the case. PMI isn't a bad thing, it's a good thing.

Let's say someone has a down payment of 5% plus some funds for closing costs. The borrowers can put down the 5% and take out a PMI policy. PMI pays the lender the difference between the down payment and 20%.

PMI isn't a 'forever' thing. Most policies will automatically fall off when the loan balance reaches 78%-80% of the original value through natural amortization. Further, borrowers can pay down a mortgage balance to reach the needed figure on their own. Borrowers can request the lender drop PMI due to an expected increase in property values.

How Does Rent-to-Own Work?

If you want to buy a home, one agreement option available is rent-to-own. Of course, not every homeowner is going to agree to it, and it comes with a set of pros and cons.

The Basics
Basically, when you enter into this type of contract, you agree that you'll rent a property for a set period of time before you then gain ownership. The time you rent can be a few months to several years, dependent upon your contract. The contract dictates that the seller will keep a certain amount of money from each rent payment. That goes toward the equity when the buyer purchases the property.

The Pros of Rent-to-Own
For buyers, the upsides of rent-to-own agreements include: gradually building your down payment rather than having to come up with a large sum upfront and all at once, you don't have to worry about competition from other buyers when you're ready to purchase and you don't have to qualify for a mortgage right away, so you can work on building your credit score.

The Cons of Rent-to-Own
There are quite a few downsides to a rent-to-own agreement. For example, you're going to pay more in rent than you would for a comparable home because you are essentially being forced to set aside a down payment. Also, you are likely going to have to pay for all the maintenance and repairs on a home that you don't yet own, and if the value of the home goes down, you might be stuck with a purchase price in your agreement that's much too high.

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Mortgage Rates Continue to Rise
By Ashley Sutphin

At the start of April, it was announced mortgage rates in the U.S. have risen for a seventh straight week. The average for a 30-year loan was 3.18%, which was up since last week when it was 3.17%. That was the highest since June, according to Freddie Mac data.

It used to be at one point that buying a new house was almost always going to be more expensive than an older house. Buying materials for new construction is less expensive now than in the past, so price alone isn't necessarily a determinant or at least the primary determinant for many people. Rates have gone up from their record low in January, which was 2.65%.

The increase has meant homes are more expensive for buyers, and that's coupled with the pressure of competing for a low inventory of properties.

There have been bidding wars, particularly in certain parts of the country, as people have been moving out of apartments and urban areas, searching for more space during the pandemic.

The National Association of Realtors reported their index of contracts to buy previously owned homes did go down in February, by the most since April 2020. While much of the real estate boom ended up being fueled by shifts brought about by COVID, April 2020 was a tough month for real estate because country-wide lockdowns were stopping potential deals.
Freddie Mac's chief economist Sam Khater said that purchase demand is still strong, but some buyers are starting to feel the pinch of the increased mortgage rates and reduced affordability and inventory frustrations.

Refinancing booms have also started to slow, which could be problematic for the mortgage industry, following their record 2020.

It's possible that borrowing costs could keep going up, and yields for the 10-year treasuries are climbing as well.

The rate trajectory for the rest of the year does depend quite a bit on the strength of the economic recovery. There is optimism thanks to available coronavirus vaccines, but mortgage rate increases are showing the foreshadowing of a very strong economic recovery. If that doesn't come to fruition, rates may stop their decline or start moving in the other direction.

However, some experts, like the Mortgage Bankers Association, expect rates could go as high as 3.6% by the end of 2021. The forecast three months ago from the same group was for rates to go to 3.5% late in 2021.

So what does all this mean?

Many analysts are expecting a pretty significant pullback in refinancing. It's likely to slow quite a bit by the second half of 2021.

Even though the expectation is that mortgage rates will go high enough to slow refinancing, experts believe that they'll still be at a point that's low enough to encourage buyers.

Michael Fratantoni, chief economist at the Mortgage Bankers Association, believes that there will be a record volume of mortgages in 2021.

While the Federal Reserve doesn't directly set mortgage rates, it does create an environment that lends itself to rates. The Fed cut rates when the pandemic recession started, and they have continued to signal they will keep rates low. There is a significant correlation between the rate on a 10-year Treasury bond and a 30-year mortgage.

Fratantoni said they think the Fed will continue to keep short-term rates at around zero through 2022 and only begin to slowly raise rates in 2023.

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What to Do When An Appraisal Comes in Low
By Ashley Sutphin

When someone is buying a home and they're going to use financing in the form of a mortgage, they need an appraisal to cement the deal. Before a bank is going to extend credit, they want to make sure they're not giving someone a loan that's more than the fair market value of the house.

That's where an appraiser will enter the scene. An appraiser will give their unbiased opinion on the value of the home.

If the appraisal is less than what your offer is, then you may feel frustrated and even a little devastated.

This isn't an uncommon situation, however. One of the big reasons for contingency issues is the appraisal.

An appraisal goes over the condition of a property, and they have to be certified in the state where they're working. Appraisers look at a wide variety of features like the year the home was built, zoning details for the neighborhood, construction details like the type of foundation, and the utilities and amenities.

An appraiser will come up with a report for the lender in around a week or so, but for VA and FHA loans, the appraisal report can take longer to finish because it has to be more detailed.

There are a lot of reasons an appraisal can come in low. A lack of comps can be one reason. For example, the market might be moving faster than appraisers, so home values in a hot market could be going up rapidly, but appraisals might not be matching that pace. There's also an issue if for example there have been a lot of remodels in a neighborhood to bring the overall value of the comps up.

So what if your appraisal comes in low? What can you do?

Cover the Difference in Cash

If you're worried a pending sale won't go through, both a buyer and a seller have options. The buyer might be able to make up for the difference in the appraised value and the sale price using cash. The reason a lender even cares about the appraisal value is that it impacts the loan-to-value ratio.

In some instances, a lender won't let a buyer make up the difference in cash, so there could be another option here which is a buyer covering some of the closing costs on the seller's end.

Price Reduction

The simplest solution, when possible, is to reduce the price if it was priced too high. The lender will be happy, and so will the buyer and then the deal can go through. You have to think that if you let one buyer walk away over the issue, that there's certainly a high likelihood the next buyer's lender could have the same issue.

Dispute the Appraisal

You don't have to accept an initial appraisal. That doesn't mean that your lender won't go with the first one, but it's worth a shot to dispute it or to ask for a second one. You should always ask for a copy of the appraisal report as a seller, so you can go over it and make sure there are no glaring mistakes. Only a lender can technically demand another appraisal, and they may or may do that, but it's worth trying.

Get Comps

You can ask the real estate agents who are working on the deal to create a list of comps that would highlight the justification for the sale price that's been agreed on. Once that's compiled, you can give it to an underwriter and ask them to review the appraisal.

Finally, aside from flat-out canceling the transaction, you might be able to negotiate and come to an agreed-upon middle point. For example, a seller might agree to pay some of the difference between the sale price and the appraisal.

There are options, but you have to find what's going to work for you, and if you're working with a good agent, they should be able to help you find a solution if an appraisal comes in low.

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What to Know About Earnest Money
By Ashley Sutphin

Earnest money is just one of the many terms to know when it comes to buying a home. It's something you might initially overlook, but not understanding earnest money can create roadblocks in your process to buy a home once you're ready to make an offer.

The Basics of Earnest Money

In simple terms, the earnest money is a deposit that you put down to show that you're serious about buying a house. You want to show the seller that you really do want the home, and earnest money might be anywhere from 1% to 5% of the total purchase price. It helps sweeten your offer to a seller and shows them that you want to take the necessary next steps to buy their home.

Then, in exchange for the earnest money, the seller will take their home off the market. They'll start to work to arrange things like inspections.

Earnest money goes into an escrow account while you wait on your closing. The escrow account is with either the seller's broker or title company, or an escrow company.

They're essentially securely storing your money until your closing. Then, that earnest money is subtracted from the total you owe, and it goes toward your closing costs.

How Much Earnest Money Should You Offer?

Again, earnest money is typically anywhere between 1% and 5% of the price you agree on with the seller to buy the house. There's a lot of variance in this, though. For example, in some locations, you might do a fixed amount and in others you could pay a percentage.

In very popular housing markets, you can see very high earnest money deposits. Your real estate agent will help you know what's in line with your area.

Earnest Money Is Not a Down Payment

This can be an area of confusion for some buyers—earnest money is not a down payment. Your down payment is fully separate from earnest money and is anywhere from 10-20% of your home's purchase price.

You need to make sure that when you're thinking about how much a house will be, you're adding up your earnest money and your down payment. Your earnest money is due when you make an offer, while your down payment and closing costs are due later.

Is It Refundable?

When you enter into a purchase agreement, it will outline contingencies. These are situations that are agreed upon where you can walk away from a deal and still get your earnest money back.

For example, you might have an appraisal contingency in case the appraisal is lower than the sale price.

Your real estate agent will help you decide the contingencies to put in your contract.

If you're in a highly competitive market, you might agree to nonrefundable earnest money. That's very risky because if your sale falls through, the seller gets to keep your money.

If you break the terms of whatever your purchase agreement is or you decide you don't want to buy a house anymore, then the seller can keep your earnest money.

This is why it's important to work with a qualified real estate agent. They'll help you understand what you need to know before you sign anything because otherwise, you could end up giving up a lot of money that you potentially can't afford to lose.

As a final note, earnest money isn't required. If you're buying in a market that's not very competitive, you may not need to worry about it. It's instead a good way to beef up an offer, especially if you're worried there could be multiple offers on the house you want.

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Pending vs. Contingent: What's the Difference?
By Ashley Sutphin

When you're looking for a new home to buy, you'll often see on listing sites that they're marked as either pending or contingent. There are differences between the two, and understanding those differences can help you know if a house is worth trying to pursue.

Contingent

First, there's contingent. Contingent means that a seller has accepted an offer. These listings are still active, so you can see them when you're searching online, for example. They could fall out of contract if all the provisions aren't met.

The closing on a contingent house doesn't happen until certain things happen, and they have to happen in a particular period of time. Some of the contingencies that are common include:

1. A home inspection contingency: When an offer has been accepted, the buyer puts down earnest money as a deposit on a home. Then, there's almost always a contingency that the home inspection goes well, done by a professional inspector. If there's an issue that arises that the buyer didn't know about, then the deal needs to be revisited, and sometimes, the buyer and seller can't come to an agreement.

2. Mortgage contingency: This happens when a buyer isn't pre-qualified for a loan, and so there's a contingency depending on the buyer being able to get financing. If the buyer can't, the home goes back on the market.

3. Appraisal contingency: With this situation, the mortgage lender for the buyer might hire an independent appraiser to determine the home's fair market value. That then shows the lender that it makes sense for the loan to go through, based on that value.

4. Home sale contingency: This common scenario happens when a home buyer already owns a home, and they make an offer that's contingent on them being able to sell the home they currently own.

It's fairly common for deals to fall apart because of contingencies. If you're selling a home, you can accept a backup offer in case your first offer and deal don't go through.

What Does Pending Mean?

You might see a home marked as pending. That means that there is an agreement, and all the contingencies are dealt with. In that case, the home is much closer to actually being sold.

The deal could potentially fall through still at this stage because of something with financing or the inspection, but it's a lot less likely than it is at the contingency phase.

Most real estate agents won't accept additional offers when a home is pending, but there's not a legal reason for that. It's more preferential.

What About Under Contract?

Finally, you might also see that a house is under contract. That means the terms are agreed upon, but the deal is new and could break down. A house under contract can go back on the market pretty easily, and you can make a deal on a property.

If the deal falls through, then you may still be able to buy the home.

Essentially what this all means is that you shouldn't let contingent or under contract scare you from making contact with a seller or their agent. There are often situations where deals fall through, although if a home is pending, there's a much lower likelihood you would have a chance.

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