Your Broker:

Rob Cassam

March 2022 Real Estate Update™

The right real estate advice makes ALL the difference!

How Will Rising Interest Rates Affect the Housing Market?

The federal funds rate is the interest rate charged to banks to borrow and to lend money to each other overnight. This isn't the rate a consumer pays. However, when the Federal Reserve makes a move affecting this rate, it's also going to impact the rates for borrowing and saving money. The cumulation of rate hikes will most impact consumers on a personal level.

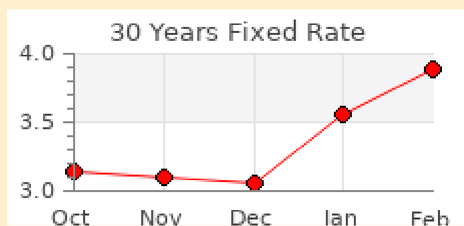
The primary way consumers and the housing market are affected is through more expensive borrowing costs. Long-term fixed mortgage rates are going higher, influenced by both inflation and the economy. Many analysts think the 30-year fixed-rate home mortgage will be 4% by the end of the year. With rising rates, there are fewer opportunities to refinance, although the most qualified borrowers might be able to get a deal.

Right now, with impending rising rates, the best thing you can do before buying or considering refinancing is boosting your credit score and saving as much cash as you can.With higher rates, housing prices might go down or at least slow down a bit. When the mortgage rates are higher, in theory, that means higher monthly payments, which can price some buyers out. Inflation can affect this assumption, though. Mortgage rates compared to inflation are still very cheap.

While the Fed is signaling increasing rates several times throughout the year, we don't know how much they'll affect home prices or borrowing just yet. Historically, this might mean costs would go down, and the market would cool, but paired with other factors like inflation, we don't know for sure that will be true in 2022.

Mortgage Rates
U.S. averages as of March 2022:

30 yr. fixed: 3.89%
15 yr. fixed: 3.14%
5/1 yr. adj: 2.98%



Should You Wait for a Crash to Buy an Investment Property?

If you're an investor or would-be investor, there's the question of whether or not buying now might leave you with a property that's worth half of what you paid for it in a few years.

If you buy an investment property now, you are concerned that the market will crash. If you wait to invest in rental properties, though, you have to remember that lenders will not be as willing to lend money if there's a recession. Yes, prices might be lower, but funding is harder to access. If you're a new borrower, the chances are pretty low a bank will extend funding to you.

Rather than trying to time out the purchase of a rental property, you want to have a plan, and that plan should center on investing for cash flow instead of capital appreciation. The idea here is that rather than buying a property and waiting for it to go up in value, you're using it for steady income. Trying to wait out certain larger macro trends isn't a good long-term strategy for any investor.

Why Are People Buying Houses with Their Friends?

We tend to view homeownership as something we do alone or with a significant other, but there's a new trend becoming increasingly popular, which is buying a house with your friends.

Why Co-Buying?
Buying a home on your own isn't always possible with a single income, and around 40% of adults who aren't in a couple make less money than their peers. The solution? Teaming up with a friend or a roommate to cut the price of a home by half. You can potentially buy a home even when you have less money saved. You may also be able to cut costs in other ways if you take on a communal living model where you're sharing household utilities and other living expenses.

According to the National Association of Realtors (NAR), the number of buyers purchasing as unmarried couples has been rising throughout the pandemic. During the pandemic, a lot of people re-evaluated their living situation. Renters wanted more space, so they thought rather than getting a roommate and continuing to rent, why not buy.

The Logistics
If someone is considering co-buying with friends or roommates, economists say you should have a formal agreement that will outline the terms for various scenarios. These scenarios include buying out someone who wants to leave the situation or ending the arrangement altogether.

Overall, it's an interesting approach to homeownership at a time when it could otherwise feel unattainable but co-buying also isn't without pitfalls.

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How to Extend the Life of Your Outdoor Furniture
By Ashley Sutphin

Outdoor furniture can be an investment. It's often not inexpensive, and you want to get as much possible use out of everything you buy. Of course, the outdoors can wreak havoc on any furniture, but you can extend the life of the items on your deck or patio.

Choose the Right Materials

When you're initially purchasing outdoor furniture and other items, you want to ensure you're selecting the best materials that are going to be able to withstand humidity and rain. For example, look for weatherproof concrete composite and galvanized steel. Synthetic wicker and teak are also good options. Acacia can be a good outdoor material, but it will require more maintenance than items made of metal.

Getting high-quality materials can be more money upfront, but the decision will pay for itself in longevity. When you're shopping for upholstered items like cushions and pillows, one of the best materials is Sunbrella, which is fade-resistant and designed for outdoor use. Make sure any cushion is intended for outdoor use specifically. Even if you have outdoor cushions and pillows, you should move items inside or put them in a waterproof storage container if it's going to rain.

Get Covers

So often, people underestimate the importance of covering your outdoor furniture. The best rule of thumb is to keep it protected whenever you aren't using it. If you don't necessarily want to ruin the look of your outdoor areas by having your furniture covered all the time, you might want to at least make sure you cover them before it's supposed to rain or storm, and if you aren't going to use them for an extended period of time.

Choose a water-resistant cover that has UV protection. High-quality covers usually feature double-stitched construction. You want to make sure your cover will allow for enough airflow because otherwise, mildew and mold can become a problem. When choosing covers, measure all of your items to ensure the fit is neither too loose nor too tight.

Use a Sun and Water Shield

For your pillows, cushions, and umbrellas, a sun and water spray-on shield can give them even more protection. The sprays will dry without odor and help upholstered items repel water. These sprays should also prevent fading and yellowing.

Seal Wood

For your outdoor furniture made of wood, seal it with polyurethane. Polyurethane helps protect the wood from the sun, making your wood look more naturally beautiful. Choose a polyurethane with UV blockers.

For your aluminum and metal furniture, cover it with paste wax. It's like sunscreen for your furniture. A coat of outdoor furniture protectant can be good for plastic items.

Keep It Clean

Regularly cleaning your outdoor furniture is important for making it last longer. You should, at a minimum, wipe everything down with soapy water on a fairly regular basis. If you have wood furniture, use an oil cleaner that penetrates. If you have wicker, you should spray it down and then use a soft brush with soap to clean the nooks and crannies. Let it dry in the sun. Your cushions need to be cleaned as well.

Finally, if you have an option to store your outdoor furniture out of the elements during the winter, do it. During winters, especially if they're harsh where you are, it's going to be tough to keep your outdoor furniture in good condition.

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What Are the Pros and Cons of Working with a Mortgage Broker?
By Ashley Sutphin

When searching for a mortgage, you might work with a mortgage broker. The goal of working with a mortgage broker is to ensure you're securing the best rates and terms. However, after the real estate market crash in 2008, the industry came under scrutiny, so there's still some residual doubt about working with these professionals.

You might worry a mortgage broker doesn't actually have your best interests in mind. In reality, when you work with someone ethical and experienced, they can be an asset. As with anything, though, there are pros and cons if you decide to work with a mortgage broker.

Working with a mortgage broker is an alternative to working with a bank. A bank or mortgage company is a direct lender. These are financial institutions that originate, process, and fund loans. The company that handles your loan process is the one that lends the money.

A mortgage broker is a middleman, and the goal is for the broker to match you with the right lender for your needs. Brokers work with wholesale mortgage companies, so they're your primary and unified point of contact to compare multiple loan options. The following are some of the pros and cons of working with mortgage brokers.

What Are the Pros of a Mortgage Broker?

When you work with a broker, benefits include:

• Brokers have access to interest rates and loan program options from various lenders, so they might be able to get you a more specialized product that's well-suited to your needs.

• Comparing a number of lenders is time-consuming, on top of everything else that can come with buying a house. Brokers can help manage the legwork, and they can also make sure you steer clear of lenders with adverse payment terms that might be otherwise buried in the fine print. While brokers do a lot of the heavy lifting, so to speak, you still need to do some of your own research before meeting with someone so that you're going to be better prepared to assess the skills and qualifications of the broker.

• Since brokers work exclusively with lenders, they might have better access. Some lenders won't let you directly get in contact for a retail mortgage.

• Brokers can get special rates if they generate a lot of business for a lender, and you wouldn't be able to do this on your own.

• Brokers might be able to manage the fees. There are a lot of fees that come with getting a mortgage, including application, origination, and appraisal fees. A mortgage broker may be able to negotiate with lenders to waive some or all of these, which can end up saving you thousands of dollars.

What Are the Downsides of Working With a Mortgage Broker?

There are some downsides you have to weigh that come with working with a broker.

• There's no guarantee that a mortgage broker's interests will be in line with your own. Mortgage brokers get a fee when they bring business to a lender, the fee might be based on the amount of the mortgage, so you could see how if you were working with someone, they could steer you toward a loan that's more than you want to take out. A broker's goal is to maximize their own compensation, and that's why many earned a negative reputation after the 2008 housing market crash.

• Some mortgage brokers may offer you the same terms and rates that you'd get from the lender anyway. You should probably still shop around to make sure what you're getting from a broker is the best deal, increasing the amount of work you need to do and negating some of the benefits of working with a broker in the first place.

• A mortgage broker might be paid by a lender or by you. If the lender covers the fee, then again, you might need to question whether you're being steered toward a loan that ends up being more expensive so the broker can increase their commission. You need to be clear on all fees upfront before you agree to anything or work with a broker.

For many buyers, particularly since you have access to online comparison tools, a broker might not be worth it as you secure a mortgage.

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Should You Consider a Reverse Mortgage?
By Jaymi Naciri

You're retired, or about to be, with limited income and savings, but lots of equity in your home. It's a familiar scenario. Many people in this position consider moving down or selling their home and renting—perhaps in a retirement community. Refinancing to take advantage of lower rates and/or take money out to pay off debts and have a cash cushion is another possible option. A reverse mortgage is another consideration, and one that offers a unique set of benefits—but also some potential downsides. We're breaking down the pros and cons of this unique type of mortgage.

What is a reverse mortgage?

A reverse mortgage is a way to tap the equity in your home once you reach the age of 62 and eliminate your monthly mortgage payments—for now. "When you have a regular mortgage, you pay the lender every month to buy your home over time. In a reverse mortgage, you get a loan in which the lender pays you," said the Federal Trade Commission (FTC). "Reverse mortgages take part of the equity in your home and convert it into payments to you—a kind of advance payment on your home equity."

What are the advantages of a reverse mortgage?

First, you get to use the equity you've built up to supplement your monthly income, pay bills, go on vacation, or anything you need. In addition:

• "You get the money up front, but the interest is deferred until you move out," said the FTC.

• The money is usually tax-free.

• You don't have to pay it back until after you have moved out of your home.

Are there any disadvantages?

For starters, you won't be living in the house Scot free. "Owners must pay the property taxes and insurance costs and keep the house in good condition when they agree to a reverse mortgage," said Debt.org. "If they don't—and many have fallen into that trap—the lender can foreclose." In addition:

• There are fees. "Reverse mortgages differ from other types of home equity loans in a number of ways, one of which is higher costs," said NerdWallet. "Fees will include mortgage insurance premiums, both initial and annual; third-party fees for closing costs; a loan origination fee, capped at $6,000; and a loan servicing fee. It's also worth noting that reverse mortgage rates tend to be higher than traditional home loans, and will vary depending on how much you borrow, how you withdraw your proceeds, the home's appraised value and your credit profile, among other factors."

• If you get sick and have to permanently move out of your home, the loan will come due. "Seniors plagued with health issues may obtain reverse mortgages as a way to raise cash for medical bills," said Investopedia. "However, they must be healthy enough to continue dwelling within the home. If an individual's health declines to the point where he or she must relocate to a treatment facility, the loan must be repaid in full, since the home no longer qualifies as the borrower's primary residence. Moving into a nursing home or an assisted living facility for more than 12 consecutive months is considered a permanent move, under reverse mortgage regulations. For this reason, borrowers are required to certify in writing each year that they still live in the home they're borrowing against, in order to avoid foreclosure.

• If you want to leave your home to an heir, "having a reverse mortgage on the property could cause problems," said Investopedia, "if the heirs do not have the funds needed to pay off the loan."

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Loan Application Stop Signs
By David Reed

Once your loan application is submitted the application is reviewed "as is." This means the information appearing on the application is valid at the time it was completed. If things change while you loan is being processed, there can be some delays as the new information is documented and verified. To make sure your loan is processed and approved on time, avoid these actions.

Switching jobs.

One of the primary functions lenders perform is making sure there is enough monthly income in an account that can handle the payments. This is typically performed by reviewing copies of the most recent paycheck stubs covering a 30 day period. When someone applies for a loan and submits paycheck stubs then shortly thereafter finds another employer during that period, those paycheck stubs are no longer any good. Plus, it will take at least another 30 days to obtain paycheck stubs from the new employer.

Borrowing money.

Lenders will verify not only that you have enough money for a down payment, closing costs and cash reserve requirements but that those funds are yours and yours alone. Your submitted account statements where these funds are coming from should have your name on them. Funds in an account should also be "seasoned" meaning they've been in the account for a while. Most lenders assume if an account has a balance showing sufficient funds to close for at least 3 months, the funds are yours. Borrowing money implies monthly payments to the lender at some point in the future.

New loans.

This is emphasized at the outset. Don't apply for a new credit account of any type. This will stop the lender from moving any further. How does a lender know someone has applied for new credit? Many may not be aware that lenders not only review a credit report upfront but also make one final review immediately prior to funding the loan. Why? As a loan application is being reviewed, a new request for credit will show up on a credit report. Even if no new account was taken, a record of a recent credit request will be listed. The lender will see this new request and stop everything until more information is known about the inquiry. Is there a new loan taken out? A credit inquiry won't have any of this information on the credit report, but it will raise a red flag during the approval process.

Valuation issues.

This can be a problem when the sales price and the appraisal value don't match. When an appraiser first reviews a property, a copy of the sales contract is provided. The appraiser uses this information as a starting point to arrive at a final value. Most often, these two amounts are the same. If, however, the sales price is higher than the appraised value, the borrowers are asked to come to the closing table with the difference. Most often than not, borrowers decide not to pay the extra funds. In this instance, the buyers and sellers may elect to renegotiate the sales price.

Tracking funds.

This issue can come up when a borrower receives a financial gift from a family member or qualified source but is not documented as a financial gift…it just shows up in the applicant's account. Just as borrowed funds can be an issue, so too can undocumented dollars. If planning on receiving a financial gift to help out with the purchase, the gift funds need to be documented from the donor to the applicant. As well, a financial gift letter should be completed from the donors stating the transferred funds are a gift and there is no expectation of being repaid.

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