Your Broker:

[Rob Cassam](#)

June 2022 Real Estate Update™

The right real estate advice makes ALL the difference!

Is a Bigger Down Payment Always Better?

Your down payment plays a role in whether you are approved for a mortgage at all. Down payments also impact your interest rate and the borrowing costs throughout the life of your loan. Your down payment usually comes from your savings. The down payment should be a percentage of the total purchase price, and then you pay off the rest of the loan by making installment payments.

There are arguments to be made both for and against making the biggest down payment possible. There are also pros and cons of a larger down payment.

One big benefit of having a larger down payment is reducing how much you're borrowing. When you have a smaller loan, you're going to pay less in total interest over the life of your loan. You'll also get lower payments each month.

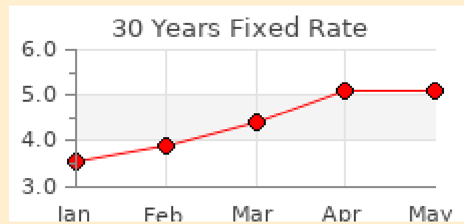
With a bigger down payment, you may qualify for lower interest rates. If you can manage to make a down payment of at least 20%, you can avoid paying private mortgage insurance.

While there's a significant upside to maxing out how much you put down on a home, it's not always the right situation. One reason to go with a smaller down payment is that it can take a long time to save that much cash. You may not want to wait so long to buy a house. Another reason a lower down payment could make sense for you is if you want to make any repairs or potential upgrades to the home after you buy it.

Down payments will show a lender you're serious and that you're putting yourself on the line as far as taking a risk, but think about your personal financial situation before you decide.

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

30 yr. fixed: 5.1%
15 yr. fixed: 4.31%
5/1 yr. adj: 4.2%



How to Stock Your Airbnb

The bathroom is where you can go above and beyond to provide items that travelers might not pack. Things to include in your bathrooms are: Extra toothbrushes, shampoo and conditioner, razors, hand soap, towels and washcloths, body wash, shaving cream, tissue, plunger, trashcan liners, toothpaste, mouthwash, toilet paper.

A fully-stocked kitchen is often one of the top reasons travelers say they choose rentals over hotels. Many people like to cook when they're traveling. Things to make sure your kitchen includes are: A set of basic cookware, cutlery, cups and glassware, cooking utensils, coffee maker, dish soap and sponges, paper towels, extra trash bags, basic spices and cooking oils, coffee and tea, surface cleaner or wipes.

As a final note, while you want your guests to be comfortable and have what they need, you also have to be mindful of theft and inventory loss. Keep a close eye on everything in your home and keep up with your inventory lists, so you always know if something goes missing and easily make sure your property is always ready for your next guests.

Comparing a Pre-Approval and Pre-Underwriting

When the housing market remains competitive and bidding wars are common, there are some benefits to pre-underwriting, which we detail below.

Pre-qualifying is part of a process when you work with a lender, and they decide the type of guarantee they will give you. Then, once you get pre-qualified, you would move on to get pre-approved or pre-underwritten. The figure a lender gives you as a pre-qualification amount is estimated and based on assumptions of your financial situation. The number indicates a figure that a lender might be willing to give you, but it's not definite.

The details in a pre-approval will include your allowable purchase price, interest rate, and lending fees. The pre-approval letter is a tentative amount of money that a lender says they would loan to you. Your lender will want to see all your financial information, including your tax returns and bank statements, for at least the past 60 days. They'll want retirement and brokerage statements for the past 60 days, totals for your monthly debt payments, and documents related to any foreclosures or bankruptcies.

Underwriting is the last step to actually getting financing to buy a home. Pre-underwriting is when you can go through this step before you're under contract for a house. An underwriter can do everything on their end that would otherwise come after your offer is accepted before you start looking at properties. Pre-underwriting is a somewhat new option, so your lender may not offer it, but if so, it can take some of the stress off of you and make it more likely you will get the home of your dreams.

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Rob Cassam, ,CCIM BROKER MBA REALTOR
E-mail: rob@charlotteNCproperty.com
Website: http://www.charlotteNCproperty.com/residential
Toll Free: 800.587.4066
Office: 704.442.1774 ext.100
Fax: 704.442-8841

Carolina Realty Advisors
704-442-1774
1001 East Blvd. Suite B
Charlotte NC 28203

How to Pay Down Debt When Preparing for a Mortgage
By David Reed

Think you might have trouble qualifying for a mortgage because your current credit load is a little on the high side? You'll want to speak directly with a loan officer to get a bit more specific but if you want or need to pay down debt before applying for a mortgage, there are some things you need to know.

There are two classifications of monthly payments lenders pay attention to. The first compares the total monthly mortgage payment with gross monthly income. The second looks at the first combined with all other monthly credit obligations such as a car or credit cards. Most loan programs like to see the front 'ratio' be around 33 percent, expressed as 33. The back ratio likes to be around 43. Both of these numbers can be a bit flexible, so make sure you don't prequalify yourself on your own. Too many times potential borrowers run their own numbers and mistakenly assume they can't qualify.

If you do want to pay down your debt, for whatever reason, there are ways to do it. The first one is to pay down existing credit balances. That seems a bit obvious, I know, but it's also good to know how far down to pay these balances. Lenders do want to see some credit usage so paying down your balances to zero might not be as big of a burden as one might think. It helps, don't get me wrong. But the ideal credit balance seems to be around one-third of credit lines. You can pay this down in one lump sum or by making extra payments each month.

Another tip is to pay down installment debt to less than 10 months remaining. Most loan programs ignore installment debt when there are less than 10 months on the note. If you've got a car payment with less than 10 months remaining, it won't be counted. A car loan is a good example. Speaking of car loans, a leased automobile with less than 10 months remaining will cause some additional paperwork. Lenders know that at the end of the 10 month period, you'll need to return the vehicle to the dealership or otherwise secure financing to replace the lease with a new installment loan.

One final note. If after submitting your loan application and the lender says you need to lower your ratios by paying down some outstanding debt, you can do that as well. As long as the lender says its okay while the loan is still in process, this will lower your monthly credit payments. If this is permitted, be prepared to provide sufficient documentation that you have enough verified assets to both pay down the debt to acceptable levels while at the same time leaving enough funds available for 'cash reserves.' Cash reserves are funds that are required to be untouched after the loan has closed. Lenders want to make sure you have some money left over when the dust settles. Six months or so of monthly payments is typically enough to meet a reserve requirement.

Your loan officer can walk you through debt reduction both before and after submitting an application. Just make sure you don't try to do this on your own, you need some guidance with this.

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Rob Cassam, ,CCIM BROKER MBA REALTOR
E-mail: rob@charlotteNCproperty.com
Website: http://www.charlotteNCproperty.com/residential
Toll Free: 800.587.4066
Office: 704.442.1774 ext.100
Fax: 704.442-8841

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1001 East Blvd. Suite B
Charlotte NC 28203

Debt Avalanche vs. Snowball Method
By Ashley Sutphin

When you're getting ready to shop for a house, you need to be clear on your current financial situation and where you need to be, ideally before you start trying to work with lenders. The amount of existing debt in your name will play a big role in whether you're approved for a mortgage and how much house you can buy. Paying off as much debt as you can before you start shopping for a home loan is critical, but it's not an easy undertaking.

When you get ready to pay off debt, you might want to follow a method like the debt avalanche or the debt snowball. These are two popular methods to tackle debt, and they have a lot of similarities but a few differences, which we compare below.

The general idea of both the avalanche and snowball method is that you're paying minimum payments on all your debt except the one your primarily focusing on at the time.

The Debt Avalanche

The debt avalanche method begins by figuring out the minimums you have to pay on all your debt, with the exclusion of your current mortgage if you have one. You'll order your debts from the highest interest rates down to the lowest. Then, you'll create a budget.

Your budget will show you how much more you can put toward debt every month to speed up your payoff. Whatever the highest-interest rate debt is, it becomes your priority. If you have an extra $200 you can put toward debt, which you see after creating a budget, that money goes toward your highest interest debt each month until it's paid off.

You keep moving down the list based on the highest interest rates, rolling your minimums into your extra payment amount until everything is repaid. You have to be mindful of things like a promotional interest rate ending. The avalanche method is a cheap, logical, and easy-to-follow path to getting rid of debt, but it can take a while.

The Snowball Method

With the snowball method, the underlying concept is the same, except you start paying off your debts with the one that has the smallest balance. You work your way up to the biggest balance, and you don't consider interest rates in the order of repayment. The snowball method works well for someone with a lot of little dispersed debt. You might be managing many minimum payments, and you can feel like you're always paying bills, which gets discouraging.

When you start paying the smallest first, you can feel like you're making some success as you chip away at them. People find that, mentally, the snowball method works for them because it builds their confidence as they tackle increasingly large challenges throughout the process.

The Biggest Takeaway

Some people feel strongly about both methods and favor one over the other. The avalanche method tends to be the most logical approach, while the snowball method is more emotional because it's about little wins.

Regardless, the biggest takeaway is the same—you should choose one debt and put as much towards it as you can until it's paid off. Pick whichever you want, but you're creating a more manageable situation for yourself by choosing one.

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Fax: 704.442-8841

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FHA vs. Conventional Loan: Which is Right for You?
By Ashley Sutphin

When you feel ready to buy a house, different types of loans may be available to you. Two primary mortgage options are an FHA loan and a conventional loan. Below, we briefly compare each to help you understand which might be right for your situation.

What is an FHA Loan

The Federal Housing Administration insures FHA loans. The government-backed loans have less stringent borrowing qualifications. Some people go with this type of loan if they don't have a big down payment or they have a lower credit score.

What is a Conventional Loan?

Conventional loans aren't issued, nor are they guaranteed by a government agency. Private lenders insure these loans. You'll need a better credit score and lower debt-to-income ratio to qualify for a conventional loan, as well as a down payment of usually at least 20%.

A conventional loan is also known as a conforming loan because they conform to standards set by Fannie Mae and Freddie Mac. These groups buy mortgages from lenders, holding them or turning them into mortgage-backed securities.

You can opt for a conventional loan with a fixed rate interest rate or an adjustable rate. The terms of a conventional loan usually range from 10 to 30 years, with 15 and 30-year mortgages being the most common. Below, we look more comprehensively at some of the differences between these two primary home loan types.

Credit Score

Your credit score is three digits, and it can be anything from poor to excellent. According to most lenders, a poor score is anywhere from 350 to 570, with an excellent score being anything 800 and above. The bulk of lenders will look at the FICO Score. The FICO Score is a credit scoring model created by the Fair Isaac Corporation. There's also the VantageScore model.

Three credit bureaus report credit scores: Experian, Equifax, and TransUnion. Your scores can vary between the three. Credit score depends on your history of making on-time payments, your mix of types of credit, how long your credit history is, and how you use your credit.

Most lenders require that you have at least a 620 to qualify for a conventional loan but generally like to see scores higher than this. For an FHA loan, you can qualify with a score as low as 500 because there's less risk for the lender since the government backs the loan. The lower your score, the more of a down payment you have to put down.

Down Payment

A 20% down payment is usually the standard for a conventional loan. Not everyone has 20% down for a house, though. You don't have to put this much of a down payment on a house, but with a conventional loan, if you don't, you'll have to pay for private mortgage insurance or PMI. To get an FHA loan, if you have a credit score that is at least 580, your down payment can be as small as 3.5%. If your score ranges from 500 to 579, you have to put 10% down.

Interest Rates

Several key factors influence mortgage interest rates, including demand, the condition of the economy, and the Federal Reserve. Lenders also look at your financial history, how much you're borrowing, and your down payment when deciding on your interest rate. If you want lower interest rates, you pay lender discount points. Then you can have a lower monthly payment. The FHA interest rates are often comparable with conventional mortgages and based on similar factors.

Loan Limit

This year, the conventional loan limit in the lower 48 states is $647,200. In Alaska and Hawaii, it's $970,800. In high-cost areas, it's also $970,880. Someone who wants to get a loan that's more than these limits would have to get a jumbo loan. Jumbo loans are non-conforming because Fannie Me and Freddie Mac don't back them. The underwriting guidelines are stricter, and they're harder to get.

For an FHA loan, the limit depends on where you're buying. The upper limit in counties considered low-cost is $420,680. In the high-cost county, the highest limit is $970,800. A conventional loan tends to make the most sense for people who have a credit score of a minimum of 620, a down payment of at least 20% to avoid PMI, and a low debt-to-income ratio. An FHA loan might be good for a borrower who doesn't have a high credit score, has a higher DTI, or has less money available for a down payment.

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What Should You Know If You Inherit a House?
By Ashley Sutphin

Inheriting a house can bring about a range of emotions. You might feel sad because it likely means you've lost a loved one. It can also be overwhelming to know what steps you should take next and what the financial implications are. It can also be exciting because a house can be a huge asset.

So what should your first steps be if you inherit a house? You essentially have three options if you find yourself in this situation. You can sell it, move into it or rent it to someone.

Initial Considerations

First, when you inherit a house, you'll have to think about the legal and financial responsibilities that come with it. There may be debt obligations, for example. You also have to think about the tax liabilities that come with inheriting property, which may include capital gains and federal estate taxes.

If you inherit a home, there's no federal inheritance tax, but some states have an inheritance tax. In most cases, you don't automatically face a tax liability if you inherit property.

Capital gains are taxes linked to the profit you generate from an asset, including a house. If you sell the home, you may be subject to capital gains taxes. You could pay taxes on the difference between the fair market value when you inherited a home and the selling price. If you keep the home, you might be eligible for an exclusion.

Is There Currently a Mortgage?

If you inherit a home that's paid for, you have fewer financial considerations to weigh. If the property has an open mortgage, you might assume it, which would mean you take over the payments as an heir and you pay off the debt based on the original terms of the mortgage.

Some loans, including reverse mortgages, require that the unpaid balance is due either when the loan holder passes away or upon sale. That would mean as an heir, if there is an open reverse mortgage, you would be required to sell the home and then settle the remaining debt.

Did You Inherit a House with Your Siblings?

A common and also complicating scenario occurs if multiple siblings or other family members all inherit a house. This means multiple opinions might be part of the decision as to what to do with the property. If there are multiple stakeholders, then options include a buyout. In this case, if one sibling wants to keep the home for whatever reason, they can buy the other sibling out.

One of the simplest things to do is to sell the home and split the profits. You might also rent it out and split those profits. If you can't agree on what to do, then you may need to file a lawsuit for partition. This asks a judge to order the sale of the home. You'll have to pay legal fees, and this is time-consuming, so you're going to receive less than you would have without having to resort to this step.

Can You Move into the House?

If there aren't complicating factors or if the people who share ownership of the property agree to it, you might want to move into a home you inherit. If there's an outstanding mortgage, again, you'll have to think about whether or not you're in a position to take on that debt and whether it makes good financial sense to do so.

You have to think not just about the mortgage payment, but property taxes as well and any other associated costs of keeping the home. If there aren't debt obligations, you may be able to sell your current home and move in without worrying about taking on debt. If you decide to sell the home you inherited, you have to cover any repairs that are needed and real estate agent fees and closing costs.

Again, if you fall in a particular tax bracket, you'll also have to pay capital gains on the difference between the fair market value of the property when you inherited it and what you sell it for.

Many things factor into what you should do when you inherit a home, from whether or not the home is debt-free currently to how many people you now share it with. Do your research, so you understand all financial implications before making any decisions.

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