Things To Consider When

Buying a Home

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EDITION

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Should I Buy a Home This Fall?

If you're wondering if it's the right time to buy a home, you should know you have an opportunity to grow your wealth, stabilize your expenses, and benefit from more options for your home search this fall.

1. The Number of Homes for Sale Is Increasing

While the number of homes for sale is still low compared to pre-pandemic norms, there is good news for your home search. The number of homes for sale has grown considerably this year. As the *National Association of Realtors* (NAR) says:

> *"It's very promising that housing inventory is improving. There are nearly 30% more homes available for sale compared to January."*

If you begin your search now and work with a trusted real estate advisor, you'll be in a great spot to benefit from those additional options to help you find your dream home.

2. Home Prices Are Appreciating More Moderately

If you're waiting to buy because you think home prices will fall, you should know experts say that's not projected to happen. According to the latest forecasts, experts project home prices will keep appreciating nationally, just at a more moderate pace than they did over the past year.

The good news is, once you do buy a home, any ongoing appreciation will help grow the value of your investment.

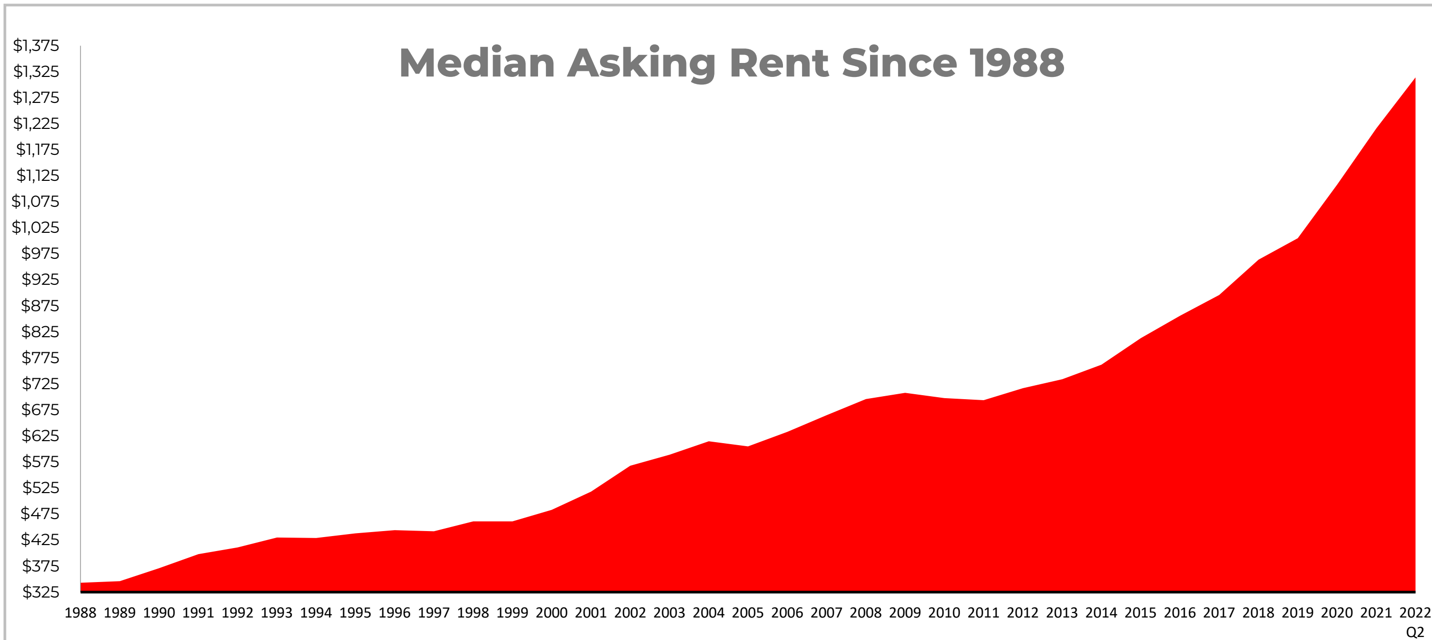
3. Homeownership Can Grow Your Wealth

Once you own a home, you'll own a tangible asset that typically grows in value over time. As home prices appreciate, and as you pay your monthly mortgage payment, you'll build equity in your home. This gives your own net worth and stability a boost. As *Freddie Mac* says:

> *"Building equity through your monthly principal payments and appreciation is a critical part of homeownership that can help you create financial stability."*

4. Buying a Home Helps Shield You from Rising Costs

Census data shows the median monthly rent is consistently going up (*see chart below*) and has been since the late 1980s. **To escape rising rents, consider purchasing a home so you can stabilize your monthly housing payment.** Homeownership allows you to lock in what's typically your largest monthly expense: your housing payment.



Source: Census

Bottom Line

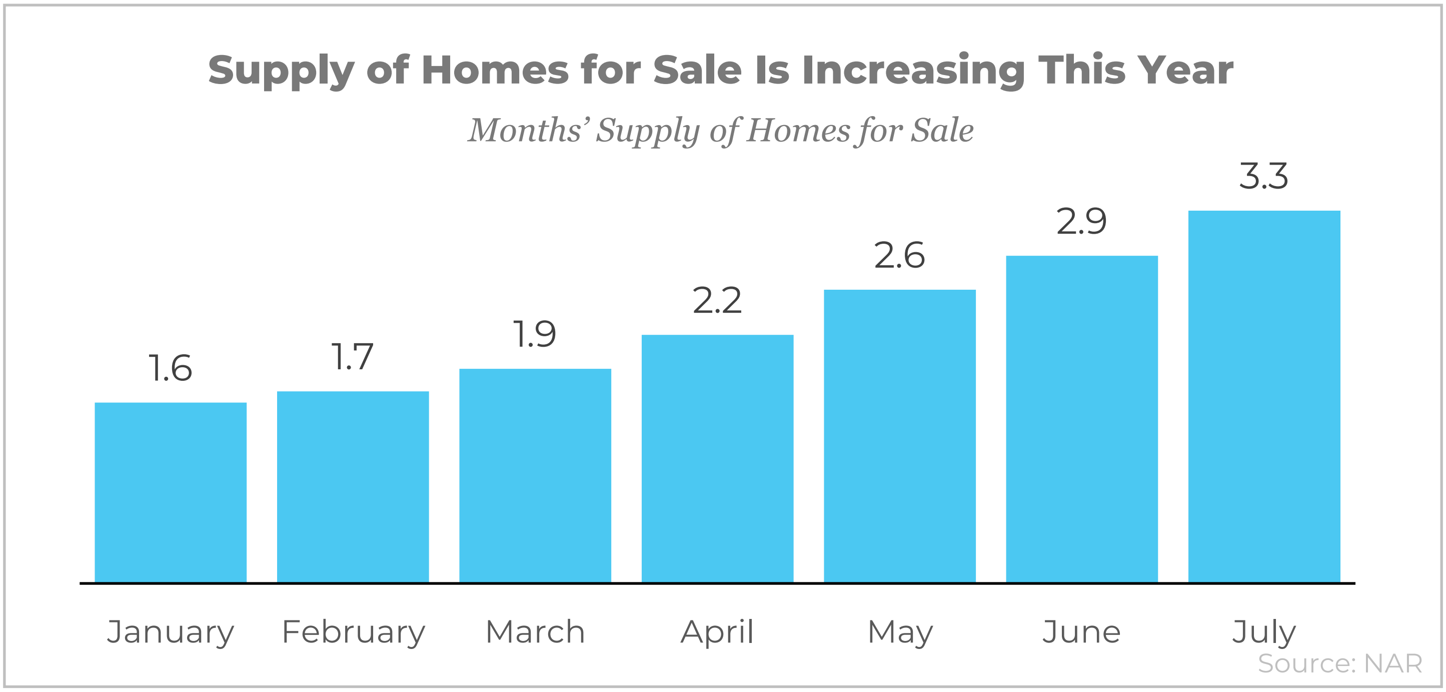
Let's connect if you're ready to learn more about the benefits and rewards of homeownership. Having a local expert on your side is the best way to make your dream a reality this season.

More Options for Your Home Search

There's no denying the housing market has delivered a fair share of challenges to homebuyers over the past two years. Two of the biggest hurdles were the limited number of homes for sale and the intensity and frequency of bidding wars. But those two things have reached a turning point.

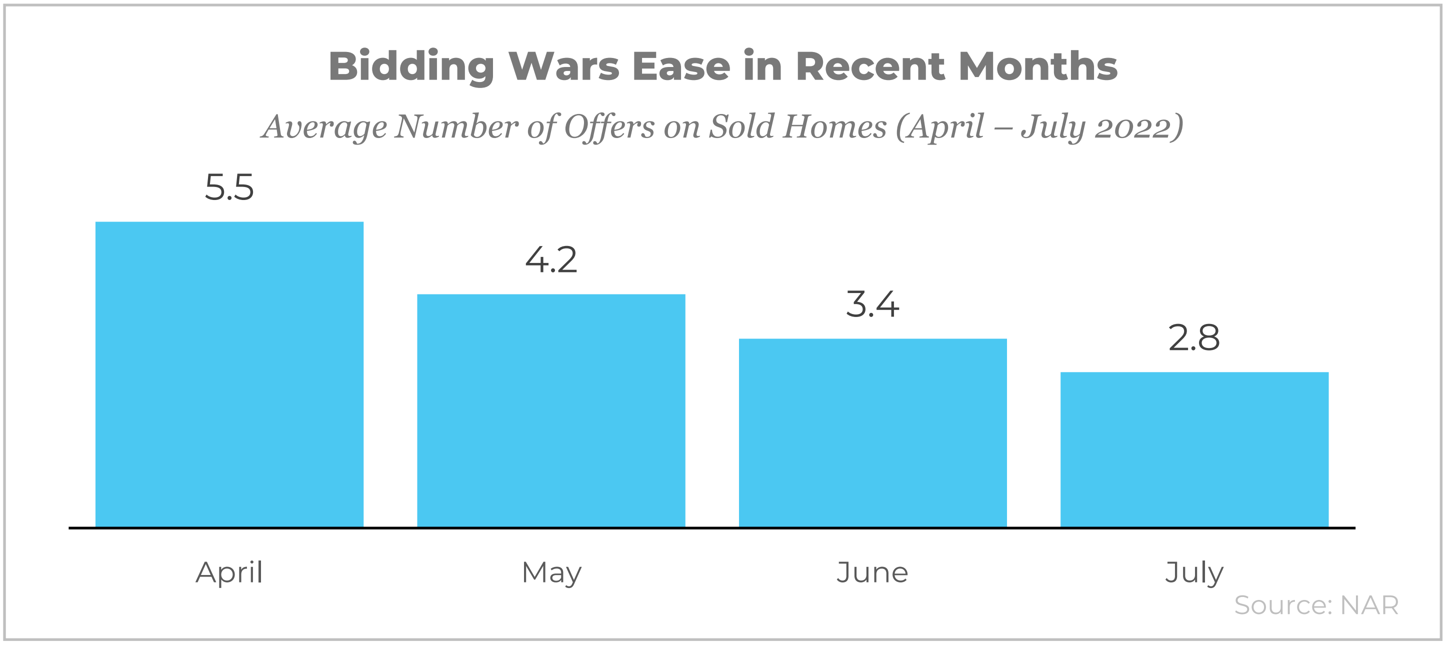
The Number of Homes for Sale Is Growing

According to data from the *National Association of Realtors* (NAR), the supply of homes for sale has increased consistently this year (*see graph below*). For you, that means you'll have more options to choose from, so it shouldn't be as difficult to find your next home as it has been previously.



The Intensity of Bidding Wars Is Easing

The good news is having more options may also lead to less intense bidding wars. Data from the *Confidence Index* from NAR shows this trend has already begun. Their report shows bidding wars are easing month-over-month (*see graph below*):



If you've been outbid before or struggled to find a home that meets your needs, breathe a welcome sigh of relief. The big takeaway here is you have more options and less competition today. George Ratiu, Manager of Economic Research at *realtor.com*, confirms this is positive for buyers:

> *". . . more available properties and less competition, . . . point toward a welcome change for buyers who are still in the market. The upcoming fall season may offer an even better window of opportunity, as long as the inventory landscape continues improving, as we've seen in recent months."*

Bottom Line

With more options to choose from and less intense bidding wars, you could have a unique opportunity in front of you. Let's connect today to discuss your options in our local market.

Housing Market Forecast

The housing market is at a turning point, and if you're thinking of buying a home, that may leave you wondering: is it the right time to make a move? Let's turn to the experts for what the future is projected to hold.

Experts Project Mortgage Rates Will Stabilize

This year, mortgage rates have climbed over 2% due to the *Federal Reserve's* response to inflation. While mortgage rates continue to fluctuate, experts project they'll start to stabilize in the months ahead, hovering in the low 5% range initially, and then possibly dipping into the high 4% range later next year. That could bring some welcome relief if you're ready to buy a home (*see chart below*):

Mortgage Rate Projections

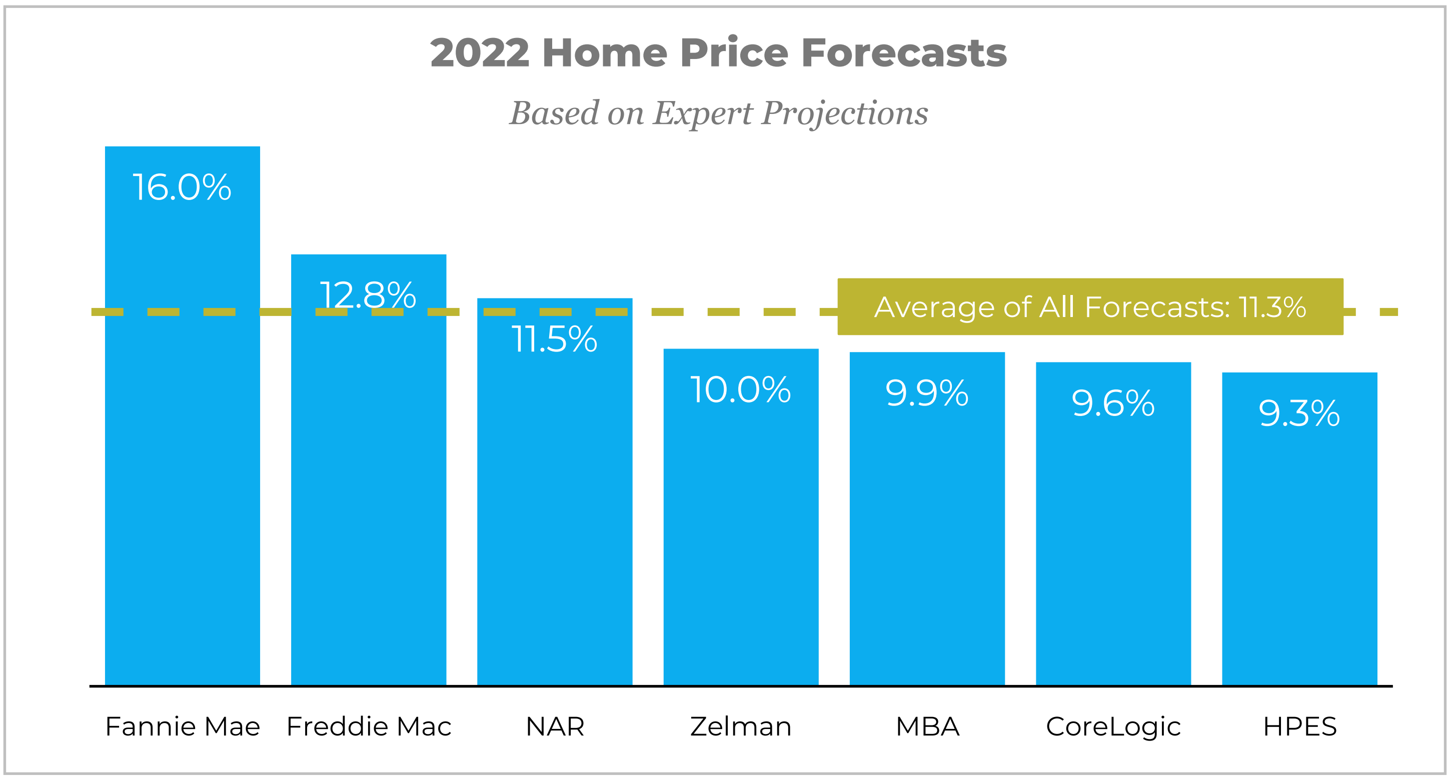
Quarter	Freddie Mac	Fannie Mae	MBA	NAR	Average of All Four
2022 4Q	5.4	4.8	5.2	6.0	5.4%
2023 1Q	5.2	4.7	5.1	6.0	5.3%
2023 2Q	5.2	4.5	5.0	6.0	5.2%
2023 3Q	5.0	4.4	4.9	-	4.8%

Home Price Forecasts Call for Ongoing Appreciation

In 2021, home prices appreciated rapidly because there were far more people looking to make a purchase than there were homes available for sale. *CoreLogic* helps explain how unusual last year's price gains were:

> *"Price appreciation averaged 15% for the full year of 2021, up from the 2020 full year average of 6%."*

This year, home price appreciation is slowing (or decelerating) from the feverish pace the market saw during the pandemic. According to the latest forecasts, experts say nationwide, prices will still appreciate by roughly 11.3% in 2022 (*see graph below*):



Even though housing supply has grown this year, it's still low overall due to a long period of underbuilding homes. And experts say that's going to help keep upward pressure on home prices. If you're thinking of making a move, you shouldn't wait for prices to fall.

Bottom Line

As a buyer, you need to know what's happening in the housing market so you can make the most informed decision possible. Let's connect to discuss your goals so you can determine the best plan for your move.

What Does A Recession Mean For The Housing Market?

As rising interest rates and inflation are decreasing the demand for homes, fears of a coming recession are on the rise. Prospective buyers may be wondering what it all means for their dreams of owning a home.

We know how economic slowdowns have impacted home prices in the past, but how could this next slowdown affect real estate values and the cost of financing a home?

The truth is we have been enjoying an out of control economy. Americans have been making more than ever, credit scores are higher than ever, and homeowners have more home equity than ever. We are also seeing the highest percentage of home ownership and (until recently) housing affordability than we've ever seen before.

Is there bound to be some sort of economic correction? Yes. Recessions are a cyclical part of the economy and can be expected. The housing market will be affected just like every other asset class, but not as drastically and catastrophically as many media outlets would lead you to believe.

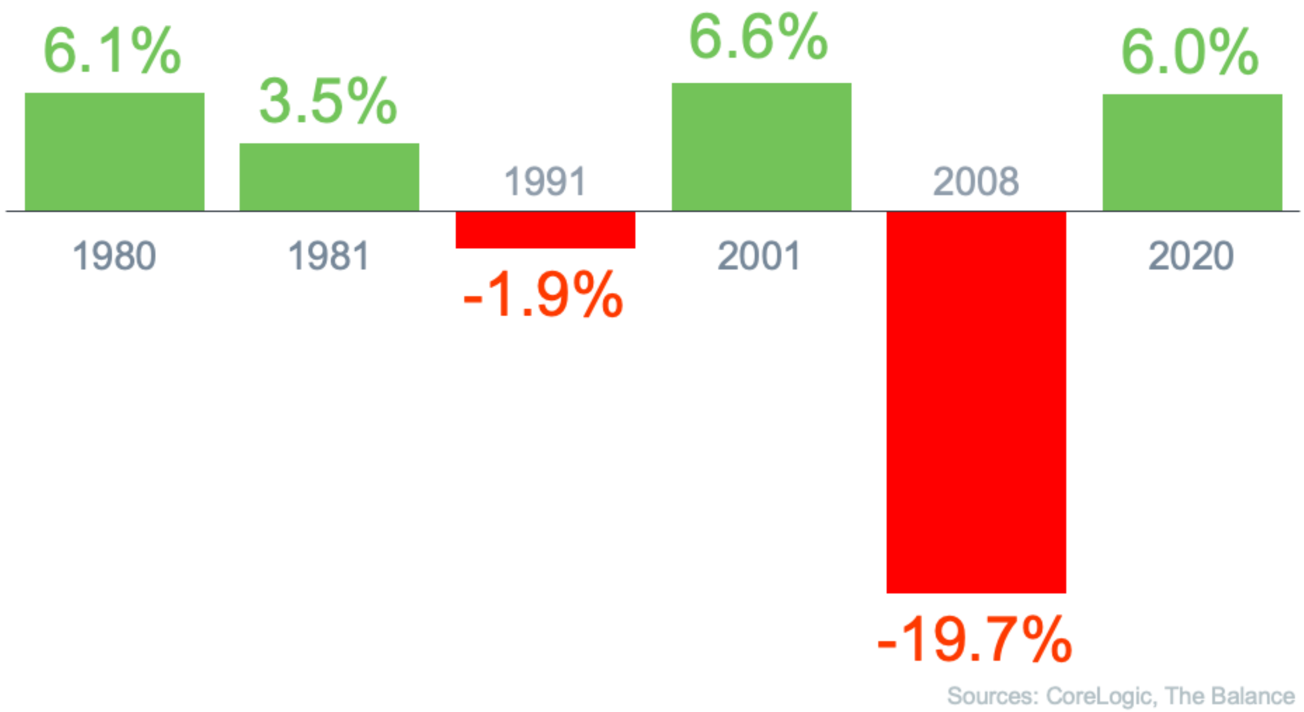
Let's explore why.

History of Home Prices During Recessions

We've had plenty of recessions that we can look to for clues on what to expect for this recession:

Recession Doesn't Equal a Housing Crisis

Home Price Change During Last 6 Recessions



During the recession in **1980**, which is a similar recession to the one we are going through right now (high inflation, high interest rates, etc.), but home prices continued to rise at a good rate. Interest rates went up to 17% during this time, which is nothing like we are seeing now. The economy was very healthy back then, just like it is today.

The **1991** recession saw housing prices drop slightly for about a year.

In **2001**, 9/11 created a big recession. That's how interest rates got down and prices went up. After 9/11 occurred, our economic market completely shut down.

2008 was the only time we saw housing prices drop significantly, but that situation was very different. The decline in home prices actually *caused* this recession — not the other way around. Too much housing supply and not enough demand led to home prices tanking, and a recession followed.

Finally, in **2020**, the Covid-19 pandemic brought on another recession. This one was so bad that the government started to print money. Housing prices started to creep up while everyone was sheltering in place, and they continued to rise nearly 16% over the whole year. In 2021, housing prices went up another 20%

History of Mortgage Rates During Recessions

Historically, interest rates have gone up in the months leading up to a recession. But in order to come out of a recession, interest rates are lowered to stimulate the economy moving forward.

Here's the data to back that up. Here's what happened to mortgage rates in each recession going back to 1980:

Mortgage Rates & Recessions

Name	Period Range	Duration (months)	Mortgage Rates
1980 Recession	Jan 1980 – July 1980	6 months	16% to 11.8% ↓
1981–1982 Recession	July 1981 – Nov 1982	1 year, 4 months	18% to 13% ↓
Early 1990s Recession	July 1990 – Mar 1991	8 months	11% to 8.8% ↓
Early 2000s Recession	Mar 2001 – Nov 2001	8 months	7.4% to 6.8% ↓
Great Recession	Dec 2007 – June 2009	1 year, 6 months	6% to 4.9% ↓
COVID-19 Recession	Feb 2020 – April 2020	2 months	3.8% to 2.8% ↓

Source: Wikipedia, Mortgage Specialist

As the chart shows, historically, each time the economy slowed down, mortgage rates decreased.

While an economic slowdown needs to happen to help taper inflation, it hasn't always been a bad thing for the housing market. Typically, it has meant that the cost to finance a home has gone down, and that's a good thing.

What to Expect During the Next Recession

Will the housing market start to cool down as we enter a recession? Yes. This is only be expected as inflation and high interest rates make affording a home difficult for many Americans.

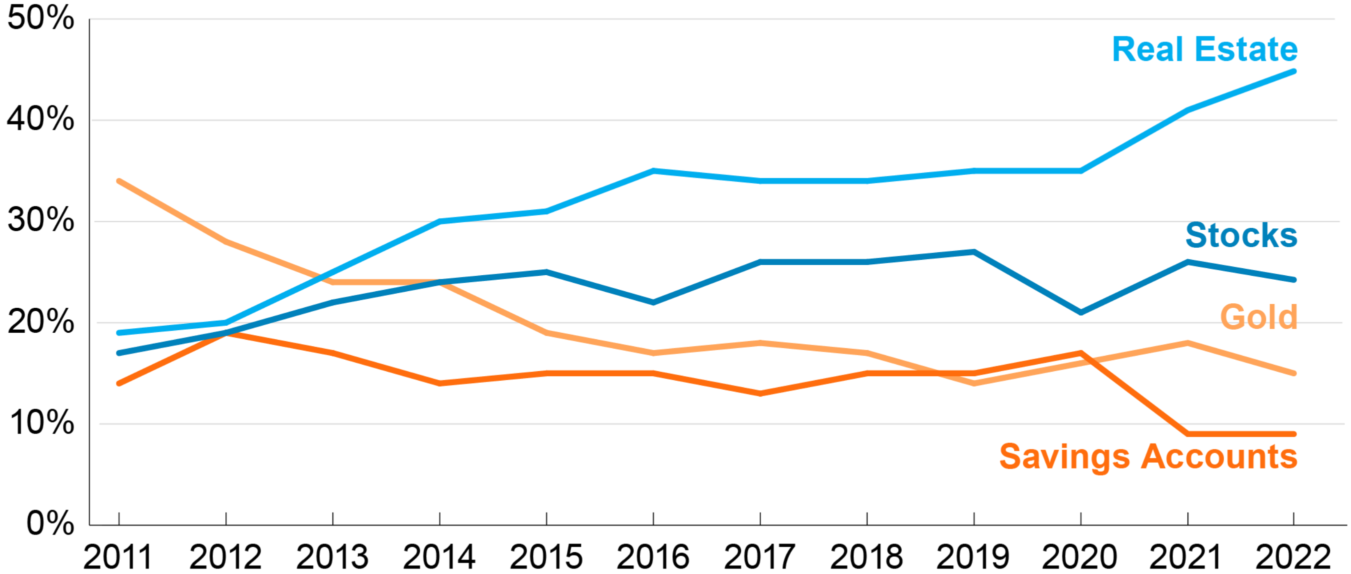
However, a slowing market does not mean a crashing one! Housing supply is still very low and demand is still very high. Until the supply problem is fixed, home prices will remain steady. Affordability constraints mean demand will dip slightly, but once we enter a recession and interest rates fall, demand will start to rise again.

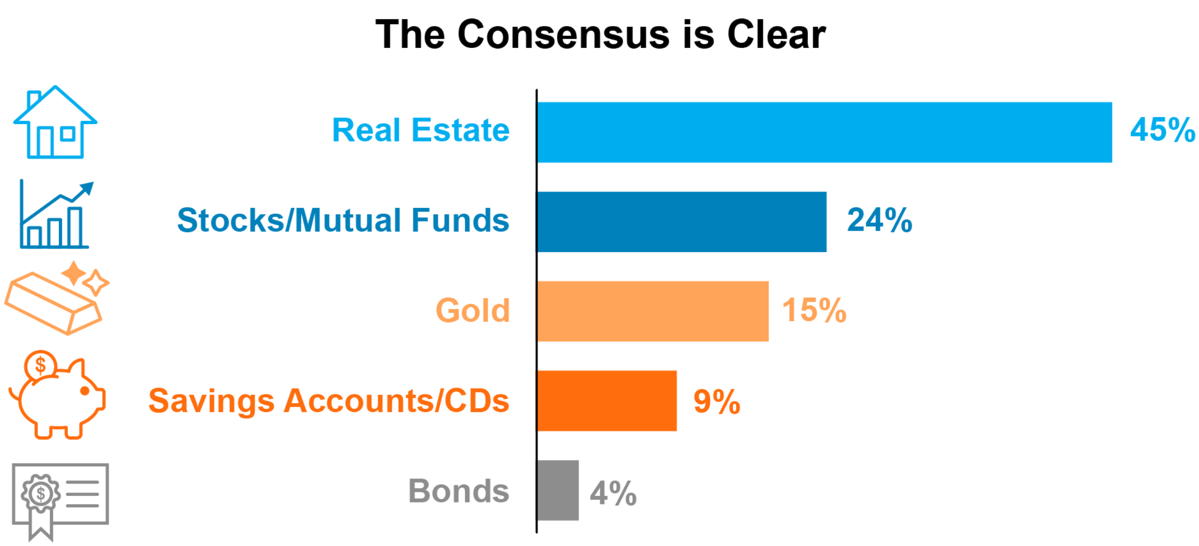
Bottom Line

Home prices are projected to appreciate for the next few years thanks to the overwhelming demand, meaning real estate will continue to be a safe and lucrative investment.

Americans Choose Real Estate as the Best Investment

According to a Gallup poll, real estate has been rated the best long-term investment for 9 years in a row.





Why Real Estate Tops the List

You're not just buying a place to call home, you're investing in your future. Real estate is typically considered a stable and secure asset that can grow in value over time.

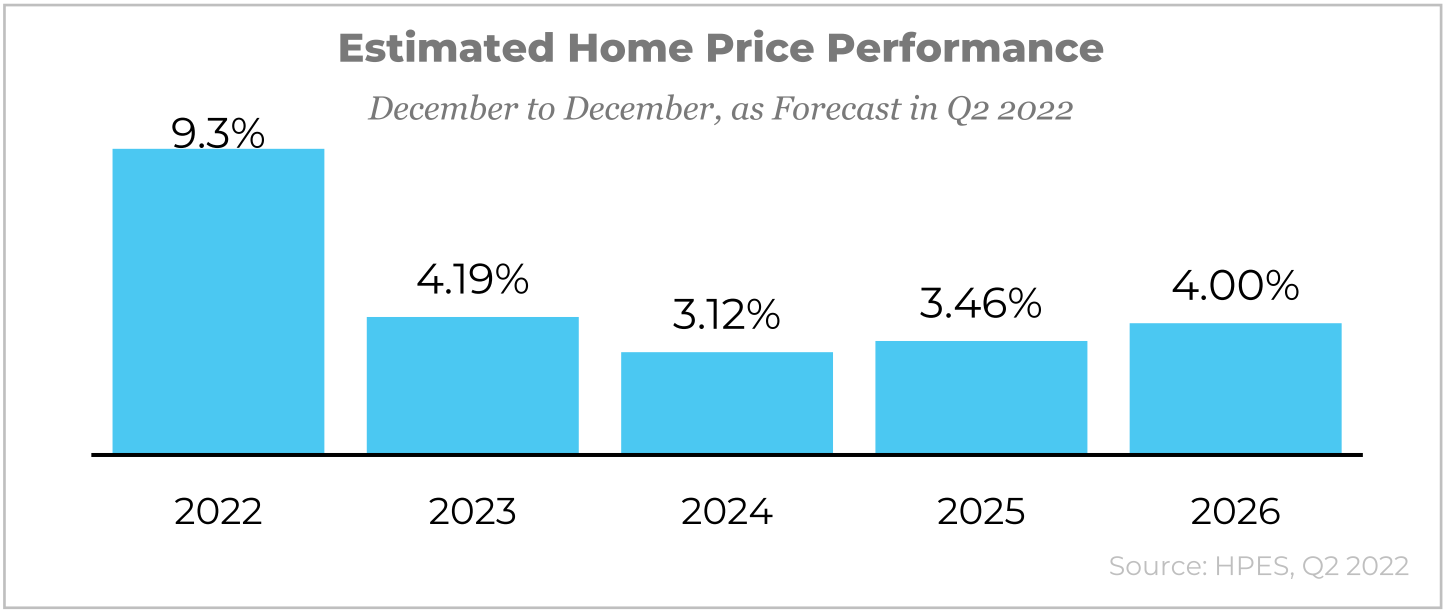
Source: Gallup

The Benefit of Buying a Home Now

You may be asking yourself: should I buy right now, or should I wait? While no one can answer that question for you, here's some information that could help you make your decision.

The Future of Home Price Appreciation

Each quarter, *Pulsenomics* surveys a national panel of over 100 economists, real estate experts, and investment and market strategists to compile projections for the future of home price appreciation. Their survey forecasts home prices will continue appreciating over the next five years (*see graph below*):



As the graph shows, the rate of appreciation will moderate over the next few years as the market shifts away from the feverish pace it saw during the pandemic. After this year, experts project home price appreciation will continue, but at levels that are more typical for the market.

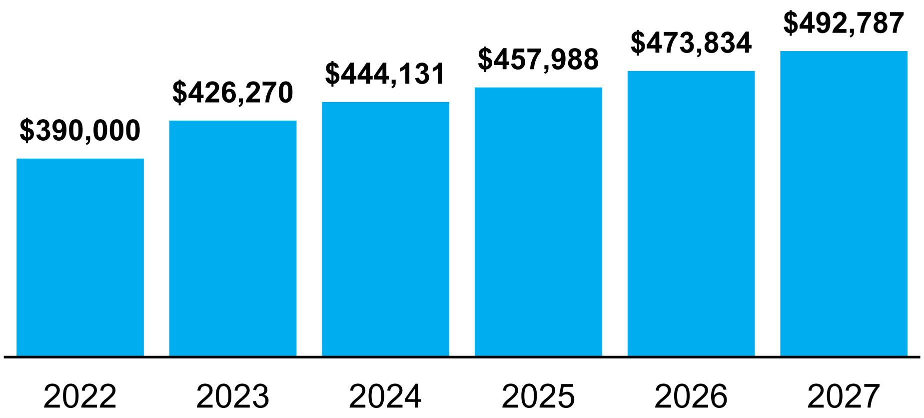
What Does That Mean for You?

Ongoing appreciation should give you peace of mind that your investment in homeownership is worthwhile because you're buying an asset that's projected to grow in value in the years ahead.

To give you an idea of how this could impact your net worth, here's how a typical home could grow in value over the next five years using the expert price appreciation projections from the *Pulsenomics* survey (*see graph below*):

Potential Home Price Growth Over the Next 5 Years

Based on Projections from the Home Price Expectation Survey



$102,787

Potential growth in household wealth over the next five years based solely on increased home equity if you purchased a $390K home in January of 2022.

Source: HPES 2022 2Q

Even at a more typical pace of appreciation, you still stand to gain significant equity. That's what's at stake if you delay your plans.

Bottom Line

Buying today can set you up for long-term success because your asset's value (and your own net worth) is projected to grow with ongoing home price appreciation. Let's connect to begin your homebuying journey today.

Seller-Paid Rate Buydown vs. Price Reduction – Which Is Better?

Can a seller-paid rate buydown really save BOTH buyers and sellers more money than a price reduction?

Home inventory is on the move up, which is completely normal for this time of year. And as more homes come on the market, we are actually seeing a slight transition from an aggressive seller's market to a market where buyers have a bit more leverage. We are starting to see seller concessions and even price reductions now.

Seller-Paid Rate Buydown vs. Price Reduction

In order to maximize the purchase price for the seller AND keep the buyer's monthly payment and cash to close as low as possible, we have found that using seller concessions to reduce the buyer's interest rate (and possibly eliminate private mortgage insurance) is drastically more effective than simply reducing the purchase price.

Let's take a look at a sample Total Cost Analysis comparing the cost and savings from four different financing strategies. This comparison is for the purchase of a $550,000 home with 5% down using a 30-year Fixed-rate loan.

Loan: **Conv. 30-year Fixed** ***Price:*** **$550,000** ***Rate:*** **5.990%**

	STRATEGY #1	**STRATEGY #2**	**STRATEGY #3**	**STRATEGY #4**
	No Buydown or Price Reduction	**$25,000 Price Reduction**	**2% Seller Concession** *(Rate Buydown)*	**3% Seller Concession** *(Rate Buydown and PMI Removal)*
Purchase Price	$550,000	$525,000	$550,000	$550,000
Down Payment	5.00%	5.00%	5.00%	5.00%
Loan Amount	$522,500	$498,750	$522,500	$522,500
Interest Rate	5.990%	5.990%	4.875%	4.875%
APR	6.303%	6.304%	5.376%	5.191%
Term (months)	360	360	360	360
Cash to Close*	$34,976	$33,667	$34,186	$33,911
Total Monthly Payment **	$3,605	$3,442	$3,241	$3,154
Monthly Savings	$0	$163	$364	$451
Cost to Seller	$0	$25,000	$10,450	$15,675
Seller Net Proceeds	$550,000	$525,000	$539,550	$534,325

Strategy #1: No Buydown or Price Reduction

This shows what the purchase would look like if no points were paid to buy down the interest rate and the home was purchased at the list price – essentially a par rate with **no seller concessions.**

- **Interest Rate: 5.990%**
- **Monthly Payment: $3,605**
- **Cash to Close: $34,976**
- **Buyer Monthly Savings: $0**
- **Cost to Seller: $0**

Strategy #2: $25,000 Price Reduction

This strategy shows what would happen if the buyer and seller negotiated a price reduction of $25,000. This strategy would save the buyer $163 on their monthly payment – but it's not so much a win for the seller, as they will net quite a bit less from the sale.

- **Interest Rate: 5.990%**
- **Monthly Payment: $3,442**
- **Cash to Close: $33,667**
- **Buyer Monthly Savings: $163**
- **Cost to Seller: $25,000**

Strategy #3: 2% Seller Concession (Rate Buydown)

Strategy #3 shows a better way for the offer to be structured that will save both the buyer AND seller money, rather than just taking dollars off the top by reducing the price. This is the Seller-Paid Rate buydown strategy, where the seller pays 2% of the loan amount to reduce the buyer's interest rate on their mortgage. This strategy reduces the interest rate by more than 1%, brings the cash to close down similar to the price reduction strategy, and reduces the buyer's monthly payment by $364 – more than double the savings of the price reduction strategy!

As for the cost to the seller? Only $10,450 – less than half of what the cost would be if the price was reduced by $25,000.

- **Interest Rate: 4.875%**
- **Monthly Payment: $3,241**
- **Cash to Close: $34,186**
- **Buyer Monthly Savings: $364**
- **Cost to Seller: $10,450**

Strategy #4: 3% Seller Concession (Rate Buydown and PMI Removal)

What would happen if the maximum seller concession of 3% was applied? This strategy could not only reduce the interest rate but also eliminate mortgage insurance for the life of the buyer's loan, bringing the monthly savings to nearly triple the amount associated with the price reduction strategy.

- **Interest Rate: 4.875%**
- **Monthly Payment: $3,154**
- **Cash to Close: $33,911**
- **Buyer Monthly Savings: $451**
- **Cost to Seller: $15,675**

Bottom Line

As you can see, when it comes to price and concessions negotiations, a seller-paid rate buydown strategy is a much more effective at saving both parties money than a simple price reduction. The buyer gets a much lower monthly payment and has to bring less cash into closing, and the seller gets to maximize their profit by keeping the home at the list price.

**Estimated cash to close amounts are subject to Underwriting conditions and do not take into account outstanding debt or qualifying ratios. Estimated cash needed to close may fluctuate based on individual borrowers' circumstances and are subject to a full Underwriting review of supporting documentation.*

***Hypothetical monthly mortgage payments reflect hypothetical Principal & Interest amounts rounded to the nearest dollar and do not include insurance, taxes, or other possible fees. Hypothetical interest rates, mortgage payments, and home prices reflect a hypothetical scenario of a 30-year fixed mortgage loan with a 5% down payment intended to demonstrate comparisons over time. These figures and rates are for educational purposes only and do not reflect an official mortgage loan offer.*

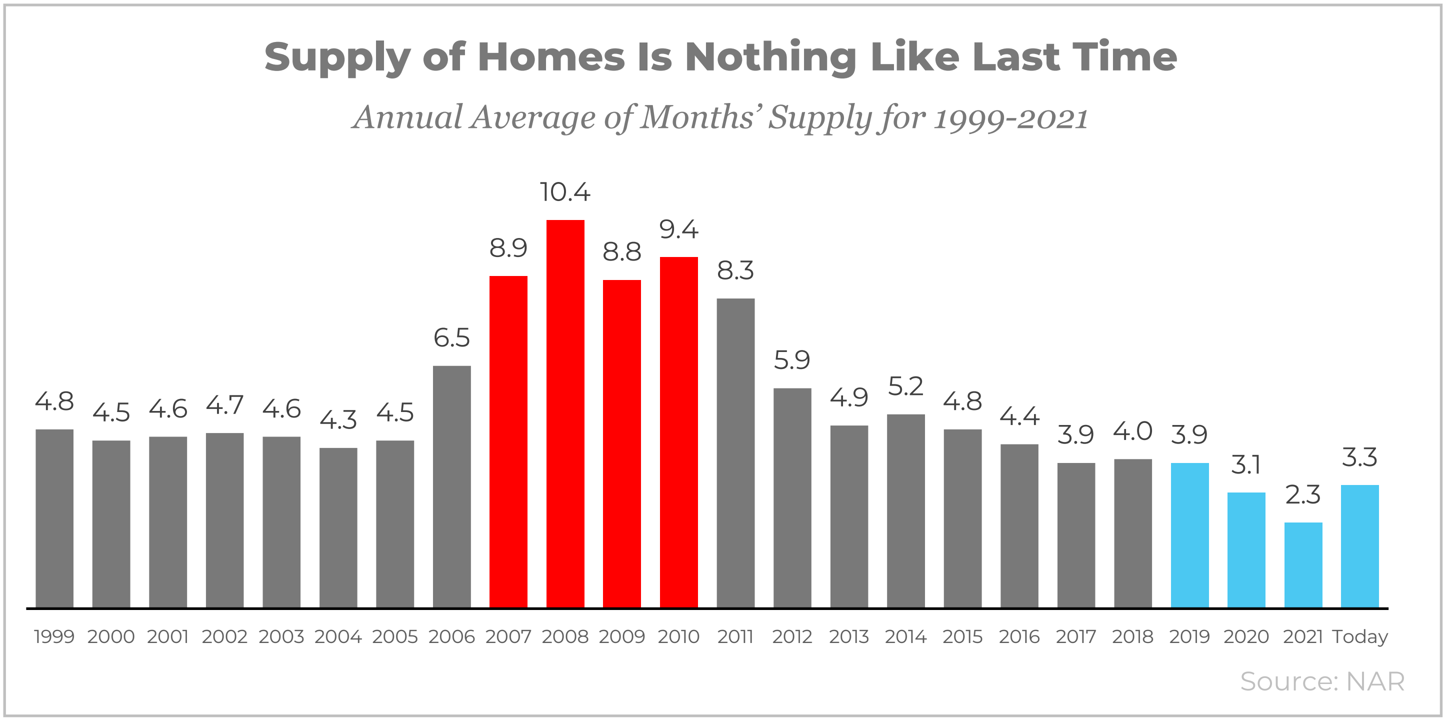
Why the Housing Market Won't Crash

With all the buzz in the media, you may start to worry the housing market is in a bubble. While it's only natural for concerns to creep in that there could be a repeat of what took place in 2008, the good news is there's concrete data to show why this is nothing like the last time.

There's a Shortage of Homes on the Market Today, Not a Surplus

The supply of inventory needed to sustain a normal real estate market is approximately six months. Anything more than that is an overabundance and will cause prices to fall. Anything less than that is a shortage and will lead to continued price appreciation.

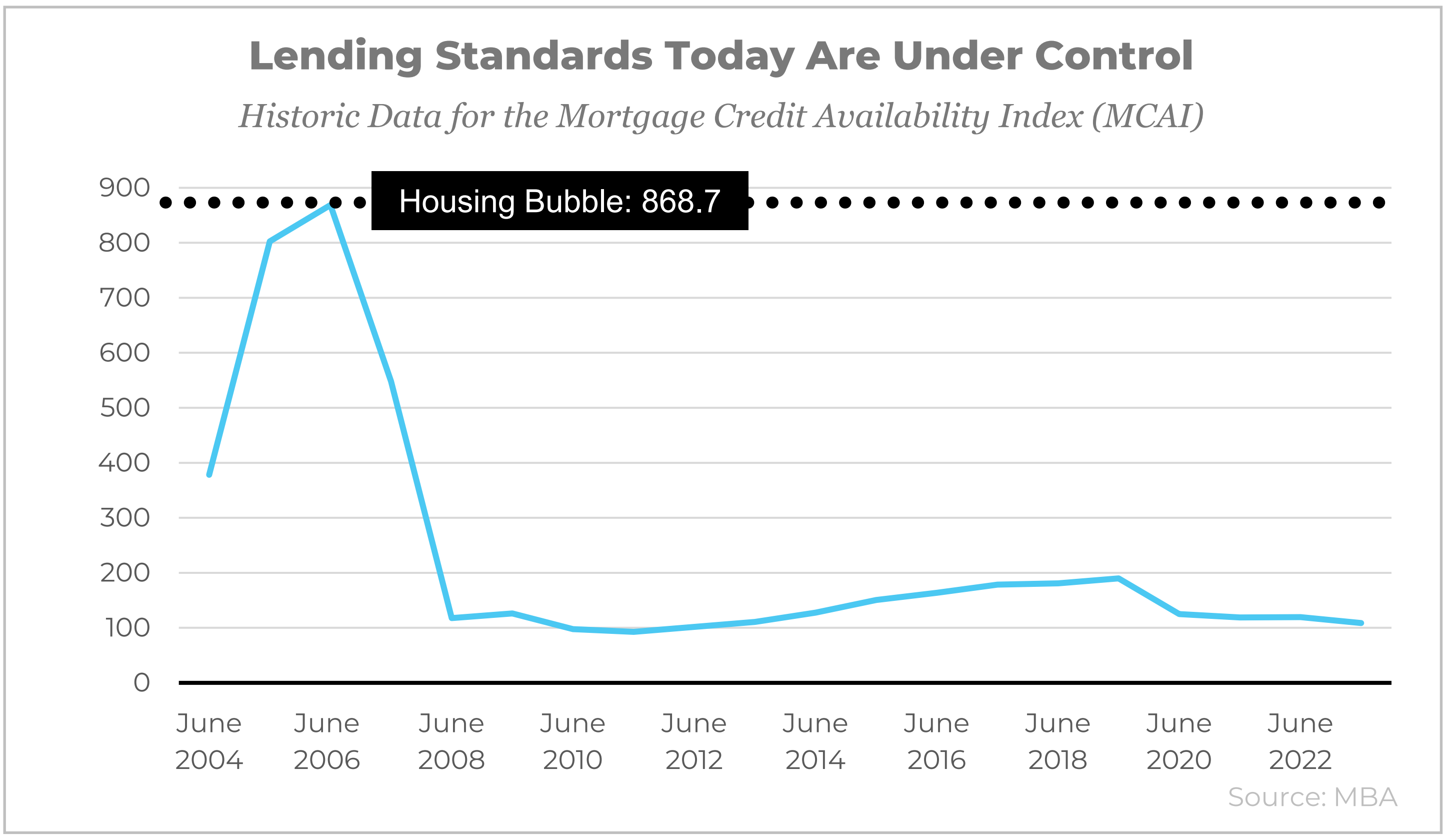
For historical context, there were too many homes for sale during the housing crisis, and that caused prices to tumble. Today, supply has grown, but there's still a shortage of inventory available (*see graph below*):



One of the reasons inventory is still low is because of sustained underbuilding. When you couple that with ongoing buyer demand as millennials age into their peak homebuying years, it continues to put upward pressure on home prices. That limited supply compared to buyer demand is one of the reasons why experts forecast, nationally, home prices won't fall this time.

Mortgage Standards Were Much More Relaxed During the Crash

During the lead-up to the housing crisis, it was much easier to get a home loan than it is today. The graph below shows data on the *Mortgage Credit Availability Index* (MCAI) from the *Mortgage Bankers Association* (MBA). The higher the number, the easier it is to get a mortgage.



Leading up to 2006, banks were creating artificial demand by lowering lending standards and making it easy for just about anyone to qualify for a home loan or refinance their current home. That led to mass defaults, foreclosures, and falling prices.

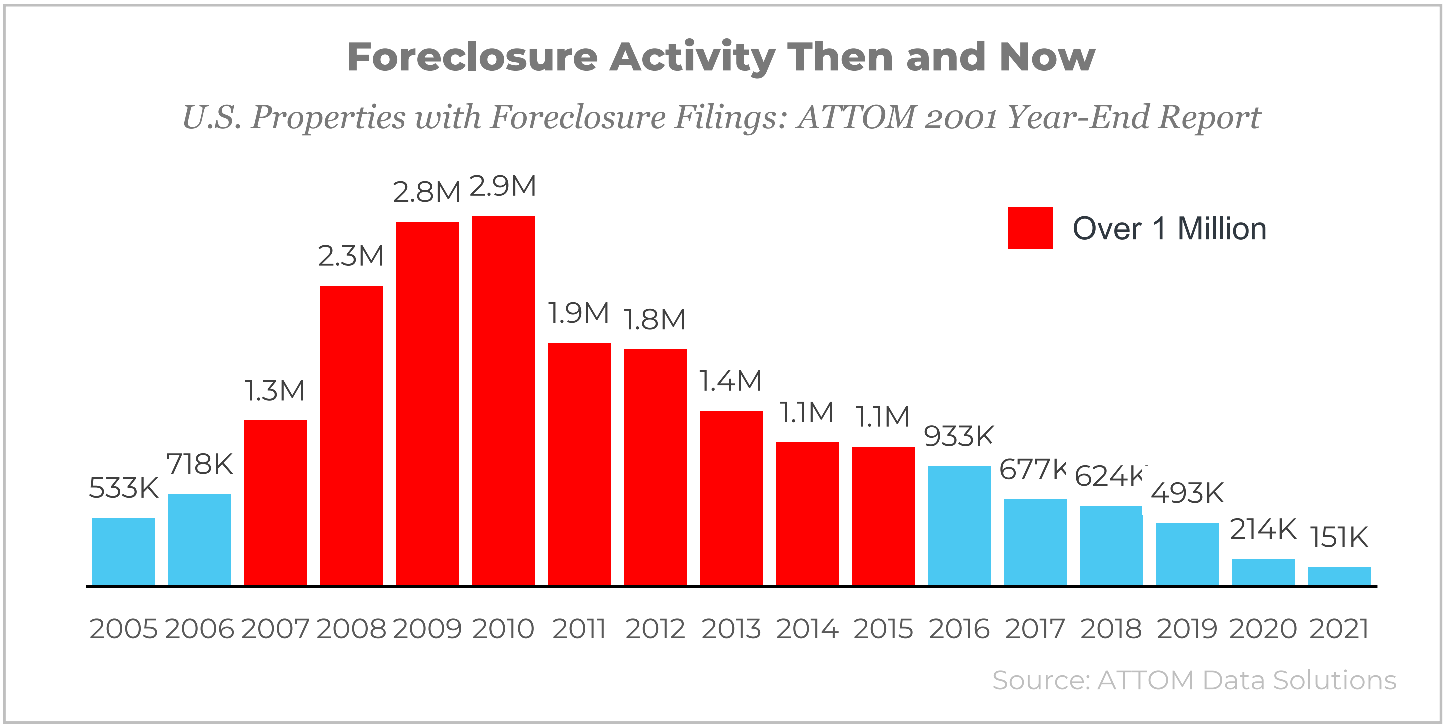
Today, things are different. Purchasers face much higher standards from mortgage companies, and buyers are more qualified. Mark Fleming, Chief Economist at *First American*, says:

> *"Credit standards tightened in recent months due to increasing economic uncertainty and monetary policy tightening."*

Those stricter standards help prevent a wave of foreclosures like we saw last time.

The Foreclosure Volume Is Nothing Like It Was During the Crash

The most obvious difference is the number of homeowners that were facing foreclosure after the housing bubble burst. Foreclosure activity has been on the way down since the crash because buyers today are more qualified and less likely to default on their loans. The graph below helps tell the story:



Not to mention, homeowners today have options they just didn't have in the housing crisis when so many people owed more on their mortgages than their homes were worth. With the pandemic and the forbearance program, many people were able to stay in their homes and work out alternative options.

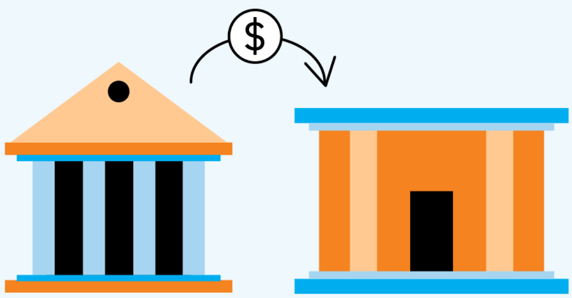
And for those homeowners who still need to make a change due to financial hardship or other challenges, today's record level of equity is giving them the opportunity to sell their houses and avoid foreclosure altogether. That's why there won't be a wave of foreclosures coming to the market.

Bottom Line

If you're worried we're making the same mistakes that led to the housing crash, these graphs should help alleviate your concerns. Concrete data and expert insights clearly show why this is nothing like the last time.

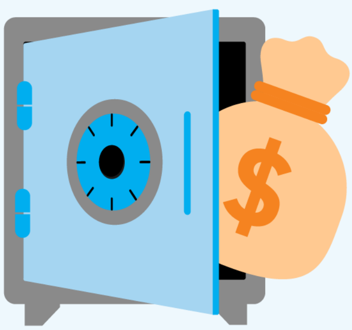
Things To Avoid After Applying for a Mortgage

Consistency is the name of the game after applying for a mortgage. Be sure to discuss any changes in income, assets, or credit with your lender, so you don't jeopardize your application.

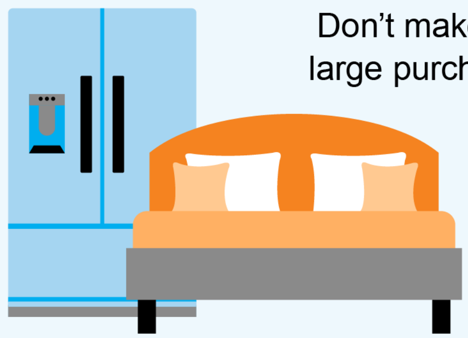


Don't change bank accounts.

Don't apply for new credit or close any credit accounts.



Don't deposit cash into your bank accounts before speaking with your bank or lender.



Don't make any large purchases.

Don't co-sign other loans for anyone.

The best plan is to fully disclose and discuss your intentions with your lender before you do anything financial in nature.

Tips for Making Your Best Offer

While the housing market is going through a shift, it's still competitive for buyers because the overall inventory of homes for sale is low. Enjoy having more options as supply continues to grow this year, but keep these tips in mind to help you put in a strong offer once you find the one.

1. Know Your Budget

Knowing your budget and what you can afford is critical to your success as a homebuyer. The best first step is working with a lender and getting pre-approved for a loan. Your pre-approval indicates how much you're able to borrow for your mortgage and shows sellers you're serious. As the *Mortgage Reports* explains:

> *". . . most sellers won't even consider an offer unless the buyer is pre-approved at the right price point. Sellers and their agents want to know you're ready and able to finance your offer amount."*

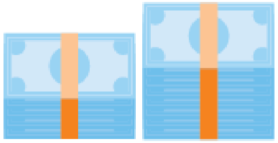
2. Lean on a Real Estate Professional

As conditions in the housing market moderate today, it's especially important to rely on a trusted real estate advisor. As *Freddie Mac* says:

> *"The success of your homebuying journey largely depends on the company you keep. . . . **be sure to select experienced, trusted professionals** who will help you make informed decisions and avoid any pitfalls."*

Agents are experts in what's happening in the housing market and in your area. They'll have insight into the latest trends, what they mean for you, and what's worked for other buyers.

3. Make a Strong, but Fair Offer



As the peak intensity of demand is cooling this year, the number of homes sold over asking price is decreasing and so is the typical number of offers on a recently sold home. But you still need to be prepared to come in with your best offer up front because inventory is still low overall and that makes it a sellers' market.

Lean on your agent to help you understand the current market value of the home you're interested in and recent sales trends in the area so you can craft your best offer.

4. Be a Flexible Negotiator

When putting together an offer, your trusted real estate advisor will help you consider which levers you can pull, including contract contingencies (conditions you set that the seller must meet for the purchase to be finalized). Of course, there are certain contingencies you don't want to give up, like the home inspection. *Freddie Mac* explains:

> *"A home inspection contingency gives you the opportunity to have the entire home you'd like to purchase examined by a professional before you close on your contract.* ***Without this contingency, you could be contracted on a house you can't afford to fix."***

Bottom Line

It's still a sellers' market today, just a more moderate one. Let's connect so you have expert advice on how to make your strongest offer when you find your dream home.

Our Mission

Our mission at NEO Home Loans is to EMPOWER you with financial literacy and GUIDE your journey to financial freedom.

We want to advise you how to pay off your mortgage and consumer debts faster and with much lower cost – all while maximizing your real estate wealth. We focus on your long-term wealth strategy and give you all the tools necessary to become a successful homeowner, both now and well into the future.

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