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CAPITOL ASSETS

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FIRST-TIME HOMEBUYER GUIDE FOR 2017

If you plan to become a homeowner for the first time in 2017, you may find that you have a lot of company in your home search. The real estate industry is expecting that there will be a rush to homeownership in the coming year. A survey of potential purchasers by **Realtor.com** conducted in the fall, suggested that half of 2017 homebuyers could be first-time buyers. Only about a third of those purchasing in 2016 were buying for the first time.

The expected resurgence of first-time homebuyers, heightening competition, could prove an added challenge for those seeking to achieve their goal of homeownership in 2017. They already had worries. One is that they will be unable to come up with a downpayment. This is probably less of a concern than they might realize. Low downpayment mortgages are out there (see page 4 for a rundown), but many first-time buyers have been uninformed about them or otherwise reluctant to turn to them.

A more pressing problem for first-time buyers will continue to be a shortage of starter homes for sale. Many first-time buyers have been disappointed at the number of choices in their price range. The competitive environment for entry-level homes is going to be stressful for homebuying newbies.

Fortunately, homebuilders are starting to step up more aggressively to meet the needs of first-time buyers. They are building more townhomes and, in general, homes that are slightly smaller and more affordable.

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So, first-time home shoppers in 2017 should find more newly constructed homes geared to their needs. When they view new-home sites, they should be sure to bring their Realtor to negotiate and advise on the unique aspects of purchasing a newly built home.

Whether for new construction or for an existing home, the affordability calculus has been moving in the wrong direction and is a reason to move smartly in the new year with the homebuying process.

Sales of existing homes in October were at the highest pace in nearly a decade,

FIRST-TIME *continued on page 2*

IN THIS ISSUE:

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FIRST-TIME *continued from page 1*

and, not surprisingly, home prices continued their upward march, as well. The median existing home price rose year-over-year 6% from October 2015's $219,100 to $232,200.

The home price climb has resulted in the first increase in the conforming loan limit since 2006. Starting January 1, the conforming limit will rise from $417,000 to $424,100. Conforming loans are those eligible for purchase by Fannie Mae and Freddie Mac. FHA will release their 2017 maximums soon.

For certain high-cost counties, where local area home prices exceed 115% of the general loan maximum, there is a higher limit.

The high-cost maximum for the 48 contiguous states will be $636,150 in 2017. All but 87 U.S. counties or their equivalent will be seeing higher limits.

Higher mortgage rates will in all likelihood accompany modestly higher home prices in 2017. The Federal Reserve is widely expected to tack on its only 2016 increase in short-term interest rates at its December meeting, but it may have more to come in the new year.

Mortgage rates have already been climbing. They jumped after the election by about 1/2 percentage point to a level right above 4%. There is a strong likelihood that mortgage rates will rise further as 2017 progresses, but it is uncertain how far and how fast.

That could take some more buying power out of the hands of first-time homebuyers. Coupled with higher prices, buyers in the new year will be getting a bit less for their monthly housing dollar.

But it is no time to panic. Rates continue to be in historically low territory. Debt-to-income ratios may be the place that first-time homebuyers will most need to keep an eye on.

Buyers of all stripes will want to be careful and defensive in 2017, most notably by locking their mortgage rate at the earliest practical opportunity.

PURCHASE EARLY, MAXIMIZE TAX BENEFITS

If you've decided that you want to become a homeowner in 2017, then you should understand how doing it as early in the year as possible might benefit you substantially.

The reason is that, for every day which passes after January 1, you will be less able to take full advantage of the tax benefits in your first year of ownership.

This results from the way the federal income tax system (and most state income tax systems that piggyback on the federal law) works for those who itemize deductions.

Buying a home is historically what has turned short-form 1040A and 1040EZ filers (who take the standard deduction) into long-form 1040 itemizers.

To get the benefit of deductions for home mortgage interest and property taxes, two of the largest deductible items for most tax filers, you must first exceed the standard deduction.

For 2017, the standard deduction will be $12,700 for married persons, $6,350 for singles and $9,350 for single heads of household.

Understand that tax reform is almost certainly coming soon, possibly in 2017, and could result in a significant hike in the standard deduction.

Among the major items that are typical and commonly deductible for both homeowners and renters are state and local income taxes, personal property taxes and charitable contributions. Sales taxes are deductible in states where there is no state income tax.

Note that deductibility of these items, too, could be affected by tax reform. Some reform plans have proposed limiting or eliminating some of these.

Taken altogether, these items rarely total enough for taxpayers to itemize, though. However, for most, it is adding mortgage interest and real estate taxes that usually raises the total itemized deductions above the standard deduction level, thus making it advantageous to itemize.

Unfortunately, many first-time buyers still wind up taking the standard deduction during their first year. If the purchase comes late in the year, your mortgage interest and real estate taxes may be insufficient to carry you over the threshold as an itemizer.

However, if you purchase your home early in January, you will get nearly a full year's worth of mortgage interest and property tax deductions and should have less trouble exceeding the standard deduction and, as a result, maximizing your tax benefits.

The best way for potential first-time buyers to cope with the obstacles will be by sitting down with their Realtor and formulating a realistic plan within the framework of the current market. The home search may take some patience, but the payoff will be worth it.

Finally, first-time homebuyers should be prepared for what they will be seeing when they apply for a mortgage under what is called the "Know Before You Owe" disclosure process.

Within three days of having applied for a mortgage, you will receive a Loan Estimate form. Then, when settlement time rolls around, you will receive a Closing Disclosure form. You must receive the Closing Disclosure at least three business days before settlement.

Go to **consumerfinance.gov** for a peek at the forms and to see their suggestions about how they can best be used to shop for a mortgage and better understand the one you are getting.

One thing that has come up is that Realtors have sometimes had trouble obtaining a copy of the Closing Disclosure from their customer's lender, who may be concerned about running afoul of federal privacy rules.

So be prepared to give your Realtor a copy of the disclosure form so they can help double-check all the numbers.

OUTLOOK *continued from page 4*

is needed. The funds can come as a gift from a family member, an employer, a non-profit institution or a government grant.

FHA requires a minimum score of 580 to qualify for the lowest downpayment. Those who score below 580 must put 10% down to have a chance of approval.

Be aware that individual lenders who process FHA loans often have their own overlays—score standards that are stricter than these requirements. In any case, lower scores will mean having to pay more in rates or points.

FHA is currently able to insure to a maximum loan amount of $271,050 anywhere in the U.S. and up to $625,500 in high-cost areas. These figures may be adjusted in 2017 due to changes in median prices.

Borrowers pay an upfront fee of 1.75% of the loan amount as an initial mortgage insurance premium (MIP). The seller is permitted to pay this or it can be rolled over into the loan amount. There is also a monthly premium. For downpayments below 5%, the premium is 0.85% of the loan amount.

Fannie Mae and Freddie Mac also have 3% downpayment programs to compete with FHA. Fannie's requires a credit score of 620, Freddie's a score of 660.

Individual lenders may have proprietary low- (even no-!) down options, but they will have more stringent underwriting, as well as higher rates and a requirement to carry mortgage insurance.

Eligible service members should consider VA's excellent no downpayment loan guaranty program.

Another source for a low or no downpayment mortgage can be a state home mortgage program. Your Realtor can tell you if your state has one that is attractive.

Finally, the US Department of Agriculture has an underappreciated ***no*** down-payment mortgage guarantee program. It is for rural areas, but the interpretation of "rural" is a generous one.

MISTAKES *continued from page 4*

accounts you're not responsible for or failing to include a credit account.

You are entitled to one free report from each of the agencies every twelve months. To obtain one, go to **www.annualcreditreport.com** or call 877-322-8228. If you find an error, you need to dispute (correct) it.

The Federal Trade Commission web site has guidance on disputing errors at **www.consumer.FTC.gov**.

The credit reporting companies will charge you if you also want to see your credit score. Make sure any score you get, from whatever source, is a FICO score, which is what lenders use.

An alternative is to ask your mortgage advisor to run your report, let you know your scores, and, if needed, advise you about how to improve them.

(3) I need to raise my credit score, so I'm going to close some credit lines.

No, no, no! Closing lines hurts, not helps, your credit score. The relationship between your available credit and what you owe, along with how long you have been managing that credit, is what generally determines your score.

Similarly, consolidating several cards into one is bad because you now have an unfavorable "maxxed-out" card. Have credit available and use a small percentage of it to scores high.

Understand that a long, pristine credit history is an extremely valuable commodity. The longer you have a good history with a creditor, the better.

(4) Our mortgage has been approved, so now we can go ahead with plans to buy new furniture and a car, right?

Whoa! Getting a new loan for a car or a lot of furniture on credit will significantly, unfavorably and perhaps fatally alter your debt ratios. Further, the new loan will not have a payment history, so that, too, will lower your credit score.

You can even damage your score just by having a store run your credit, even if you don't end up buying anything.

This is a problem even if you have already been approved because lenders run credit scores again right before settlement to make sure they haven't changed for the worse.

(5) I just got a job closer to my new house and it has a lot of opportunity for advancement. How great is that!

Uh, not as great as you might think. Lenders also double-check loan applications right before settlement to verify that you are still working at the job you listed on the application.

If you quit your old job before settlement in anticipation of starting new employment, even if the job is better or closer to the new home, you may no longer qualify for the loan. So hold off on any workplace change for just a bit.

STEPS *continued from page 4*

problems. As a first-time buyer, you are probably not experienced enough to know what things to look for.

A professional home inspector can walk you through potential problem areas, as well as help prepare you for some of the mechanics of homeownership.

5. Work with your lender as last minute details are cleared up.

Appraisals, termite reports, homeowners insurance, updated pay stubs and bank statements are just a few of the items needed before settlement can occur.

6. Attend the final walk-through.

Usually a day or two before settlement you will inspect your new home. This is where you check to see that everything is in working order and that the home is as you contracted for it. Now is the time to address any last minute problems.

7. Go to settlement.

Remember that the check you bring for the downpayment/settlement costs needs to be certified. Congratulations, you are now a homeowner!

THE MORTGAGE OULOOK FOR THE FIRST-TIME BUYER

If you are planning on buying your first home in 2017, you will find a lending environment that has continued to loosen just a bit, on balance. The Mortgage Bankers Association's October Mortgage Credit Availability Index showed yet another uptick, registering a post-crash high.

More lender/investors entering the market and availability of jumbo, high loan balance and conventional conforming loan programs aimed at expanding homeownership (positive for first-time buyers) have been recent rebound components.

Mortgage rates, however, are another thing. Rates for the 30-year fixed-rate conforming loan spiked roughly 1/2 percentage point higher following the election to a new high for the year just above 4%. Both 15-year fixed-rate loans and 5/1 ARMs are in the low threes.

Was the financial market's "repricing" of mortgages and other longer-term debt the start of a trend, a one-time adjustment in expectations or an overreaction? Market analysts' opinion, as usual, is split on that subject and most have been furiously reworking their forecasts for the new year.

Prospective 2017 homebuyers will need to keep a close eye on the movement of rates and make sure they have their mortgage specialist's direct line in their phone's address book.

For many first-time buyers, particularly those with less than perfect credit, the government FHA-insured mortgage should continue to be their best option in 2017.

With an FHA mortgage, a downpayment of as little as 3.5% of the purchase price

OUTLOOK *continued on page 3*

AVOID THESE MORTGAGE MISTAKES

Successfully negotiating the mortgage application process can be a challenge, so being well- prepared is critical. The biggest mistake many first-time homebuyers make is failing to get their financial affairs in order ***before*** they start looking for a home.

Here are some common and potentially debilitating misconceptions:

(1) I have always paid for everything in cash or with a debit card, so I've never had a late payment. My credit should be really good, right?

Your credit history is one of the most important factors in determining whether your loan is approved and what the interest rate and terms (such as loan discount points) will be, but you must ***have*** a history!

If you pay for everything in cash or with a debit card, then you won't have done anything sufficient to demonstrate your creditworthiness.

You need to get credit and establish a history of making credit card or installment payments on time.

(2) I have been able to get credit whenever I applied for it, so my credit must be fine.

Perhaps. But obtaining a mortgage isn't the same as getting other types of credit. Getting a mortgage is tougher than, say, getting a car loan. Make sure there are no errors on your credit report that can lower the score that is generated from it, which is what lenders will look at.

Check your report for inaccurate information or omissions and get mistakes corrected in advance of applying for a mortgage. You need to check all three credit reporting companies—Equifax, Experian and TransUnion.

Common errors that can hurt your scores include: not clearing a balance when a loan has been paid off, listing

MISTAKES *continued on page 3*

SEVEN STEPS TO OWNING A HOME

1. Get pre-approved with a mortgage lender.

Having a lender pre-approval letter is highly recommended, because it greatly strengthens your bargaining power. A pre-approval , which states the amount you are qualified to borrow at a certain interest rate, will require the lender to check your credit and verify your income.

Understand, a pre-approval will only last for a specific period of time and is not a guarantee of approval. A pre-qualification is less formal and carries less weight.

2. Work with your Realtor to find the right house in the right neighborhood at the right price.

Make sure you understand all the costs involved, including insurance, taxes, utilities, homeowners association fees and the pricetag for any substantial maintenance issues that may be looming.

Once you know what you will be on the hook for and that you can afford what is in prospect, looking for the right house becomes an easier and less stressful decision.

3. Once you find that ideal home, write up an offer.

An offer becomes a "contract" once you and the seller agree to all the terms, but it may still be contingent on such things as the appraisal or a home inspection.

Be sure you understand what conveys with the house, who is responsible for what and that you understand the fine print.

4. Get a home inspection.

Even though the home may look great, there still can be hidden

STEPS *continued on page 3*