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Nadeska Alexis:

Hey, I'm Nadeska, and this is season two of Beginner to Buyer. Beginner to Buyer is powered by Chase Home Lending. You can get lots of helpful tools and resources to buy your first home by visiting beginnertobuyer.com. Now, I hope that the first episode of this season was a good refresher for you on all the things that you should be considering when you're thinking about homeownership. Of course, starting the process can be a little intimidating, but doing your research early will help you make decisions with much more confidence.

And speaking of confidence, how can you know for sure if now is the right time to move forward with buying a home? Maybe the current real estate market conditions can seem a little confusing. Is it a buyer's market, or is it a seller's market? How do the changing interest rates impact your decision to buy a house and when to refinance a house? What does all of this really mean for you? Our Chase expert, Andy Tisler, is going to help us answer those questions later in the episode. But first, we're going to hear from Jason Roberts in California.

Jason, I know that you have been looking to buy a home in the past few months, and I'm wondering what prompted that decision? Currently, are you renting?

Jason Roberts:

I am currently renting. I've always wanted to own a home. I've always wanted that security and equity and chance to build wealth, but I was a solo parent very young. So, I was just never in the position to do so. As time has gone on, it just felt like a time for me to go ahead and look to see what was available out there.

Nadeska Alexis:

How has your experience been renting? Have you generally enjoyed being a renter, or it's something you felt like you were just putting up with until you could buy?

Jason Roberts:

Yeah, I would say more the latter because the thing about renting is that you have no control over it. You're at the mercy of a landlord, and their financial needs/wants. My rent here in the seven years or so that I've been here, my rent has increased a hundred percent up. There's no way to control that other than moving out of the area. As a renter, you just feel like you have no control over your housing costs.

Nadeska Alexis:

Do you feel like you've been able to at least build a community or become a part of a community, or is that also something that you think would be one of the benefits of homeownership?

Jason Roberts:

I think that's the biggest thing. I was in contract on a condo for a few weeks before I ultimately backed out. But even during that short period of time, I started to look into the history of the area, and I started to get that sense that I was part of the community. As a renter, I just don't feel that.

Nadeska Alexis:

There is hope. It just sometimes takes a lot more work and some frustration and some patience. But, you did mention that you were a single parent from a young age, and you do live in an area that has a high cost of living. So, once you initially decided that you did want to purchase a home, tell me about how you went about in terms of thinking of your finances. Did you reach out to a lender to see what you could afford? How did that go?

Jason Roberts:

Yeah, so I've been saving for down payment for a few years now, and I felt it was a good time to see what I could do. So, I reached out to a lender to see what I could get qualified for, and they came back based on my income saying that I qualified for a house that was $650,000. Which, with my modest 3% down payment would have equated to 80% of my take-home pay. I thought that was quite excessive, and that was actually one of the first kind of red flags that the market is not healthy and that the institutions that are involved are maybe more encouraging than they should be. I just thought that was a crazy number to start with. So, I started looking at homes that were significantly less than that. I was looking more in the $400,000 to $450,000 range.

Nadeska Alexis:

It seems like you were very conscious of, I think the term people would say is being house poor, even though you could qualify for a house. Then, once you get in there, then you're worried about just sort of budgeting and taking care of day-to-day expenses, right?

Jason Roberts:

Absolutely. I grew up in a house with what you consider lower middle class family. I was aware of my parents struggle to afford their home. I recognize that although I do want that security and equity building and all the things, the positives that come with homeownership, I am not willing to pay the price to be completely restricted in my lifestyle and also really have no emergency backup for if something goes wrong. I don't want to live under that stress of, "If something happens, I don't know how I'm going to handle it." So yeah, being house poor was definitely something that I was trying to avoid for sure.

Nadeska Alexis:

I think that's a really, really sensible and pragmatic way to look at it, to not overstretch yourself. As you started actually looking for properties, did you get to the point where you were making offers? Did you come close to finding something that you liked?

Jason Roberts:

I was close. I actually found one home that I really loved, but it was in the suburbs, had a huge yard. Unfortunately, that is the kind of home in this market, a single-family home in the suburbs with a yard is sort of the hot ticket now. That home ended up going for $45,000 over asking, and I just didn't have the cash to be able to compete. That one went away. Then, I started, I guess, adjusting what I was looking for, although that's what I would like. I realized that was also probably the houses that were going to have the most competition for.

So, I started looking at some alternatives, and I found a condo that was actually in a pretty good location. I liked the location where it was over in West Sacramento. It's just across the river here, and I made an offer and was told that there was a better competing offer. The offer that I made was at $430,000, which was the list price. I was told that there was a better offer and that if I was to come back with a bid of $455,000, then I would win the house. So, about 5:00 PM the next day, he came back saying, "I talked her down to $445,000, and we really hope we can get this done, and I'm starting to write up the contract now, and if it doesn't work out, then we're going to put the home back-

Contract now, and if it doesn't work out then we're going to put the home back on the market and I considered it. But still felt like they were just trying to get more cash out of me and based on the comps in the area, I thought that it was a relatively fair price for the market. So I came back with a $437,000 final offer, which they accepted. So I was under contract for a few weeks. The problem was that in order for me to afford the unit... It was a two bedroom, one and a half bath, 983 square foot unit. So in order for me to afford that comfortably and not be house poor, my plan was to rent out one of those bedrooms as an Airbnb. Unfortunately, I didn't get the HOA documents until it was roughly three days before I was supposed to close on the unit. Unfortunately, the seller had misrepresented the HOA rules and it was that you couldn't actually do any leases that were shorter than 30 days. So the Airbnb plan was not going to work and so once I realized that I pulled out of the contract.

PART 1 OF 4 ENDS [00:08:04]

Nadeska Alexis:

Well, I'm really sorry to hear that. Definitely with short-term rentals, it's usually difficult. Is that something you would consider moving forward for any other properties that you look for being able to rent to help offset your expenses?

Jason Roberts:

It's something that is an option these days because of the financial reality of our market. So whether it's Airbnb or renting out, that is still a potential depending on the financial realities of the situation. But if I could get into something that I could afford on my own, then I would probably more likely to do that.

Nadeska Alexis:

Okay. So after that experience just generally speaking, how do you feel about the idea of home ownership right now? You mentioned that the market is really, really difficult. Are you sort of tabling this for now or permanently? Do you think in a year or two you would revisit this and just keep saving in the meantime?

Jason Roberts:

I definitely plan on owning a home someday. But I really feel like the market has started to turn and this bubble or whatever you want to call it is starting to cool down. So it only benefits me to wait. The prices are only going to go down and I mean, just in the time period of what I was making offers the house that ultimately went for 45 over in March. I was locked in at a 3.75% interest rate at that point, the condo I was locked in at a 4.75% interest rate. So just with the interest rate alone that has taken the cost and the financial cost of that mortgage to a point where it's just not worth it. It's not worth what you get for the money. So I think my biggest takeaway honestly, it's been although I still have that desire for home ownership. It's really made me appreciate what I have. Which is I have a place that I can afford, that I can call my own and I still have the funds to live a lifestyle that I want to live.

Nadeska Alexis:

Jason, I thank you for sharing your story. I wish you luck on this home buying journey. I'm confident that you're going to find something that works for you and your family and in the meantime, I'm going to take this question to our experts.

Jason Roberts:

Great, thanks so much.

Nadeska Alexis:

Making the choice about whether to buy a home now or whether to wait a bit longer can be difficult because so many factors go into that decision, and most of them are financial. This is more than likely the biggest financial investment you're going to make in your lifetime. So here to help us understand how the real estate market changes and how to navigate those changes is Andy Tisler. Andy is a Senior Chase Home Lending Advisor.

Andy Tisler:

Thanks for having me here.

Nadeska Alexis:

Of course. Thanks for being here, we have a lot of questions for you. I think in the past two to three years the average American has heard more about interest rates than they ever imagined that they would in a lifetime. But whether they understand how those interest rate rates work, that's a different story. So how does the interest rate actually impact the housing market?

Andy Tisler:

Great question. Really, in a low rate environment it really provides a lot of incentive for buyers to really get out there and purchase especially when you're looking at renting versus owning. What are rent prices? What would the monthly payment be? So that's a very big impact when you have the buyer looking at buying power. As mortgage rates decrease, there's more buying power so that consumer could go out there and purchase more house. That's really been one of the huge triggers in the big demand in housing over the last few years. Now you're seeing the reverse take place where rates are rising, and that's putting a lot of pressure on buying power and it's causing a lot of home buyers to really make difficult decisions on whether they should buy or rent. Because now we're also dealing with inflation, rent prices going up. So there's a lot to consider when buyers are looking at making their next purchase as a first time home buyer. If somebody already owns a home, now they're thinking I have this home.

I have a great rate on it. I could use the extra space, or we'd like to relocate. But should I make that decision based on the fact that I'm trading my lower rate and taking on a higher rate? So it's really causing a lot of decisions for home buyers and consumers, and that's something that in my position I'm really helping clients sort through on a daily basis.

Nadeska Alexis:

Okay, that's a really good point. Because when you're trying to make a home purchase, especially if you're a first time buyer. There's a lot that you have to consider in terms of your budget and what you're going to be dealing with for the next few years. So how big of a factor should rates be in that decision? Also, there's also the option to refinance at some point. So when you're thinking about those two things, how should you approach that situation?

Andy Tisler:

Yeah, another great question. So one of the things that we're using right now in the mortgage industry, and there's a lot of truth to it is you rent the rate and you buy the home. So as a home buyer, you're going in to make potentially a long-term purchase. If that price is a good price point for you and you're comfortable with that, even if that rate is potentially a little bit on the higher side currently. We have to think through the implications of is there a refinance opportunity that may present itself in the future that can help bring that rate down? Especially if you lock in a 30-year fixed rate you know that, that will be the highest the rate will go. When you're renting, there's a very good likelihood you might see rent increases. When you're purchasing you have that cap on the rate, and if you have a refinance opportunity in the future then great. If not, you at least cap yourself for that longer term period.

So that's really one of the decisions as you're purchasing is thinking through is this payment comfortable now knowing that that rate will not go up for me if I get a fixed rate and potentially might decrease with refinance opportunities in the future.

Nadeska Alexis:

Okay. Before we get further into refinancing, you mentioned getting a 30-year fixed rate mortgage for example. Now of course the rate you get varies depending on the type of mortgage you get. Can you tell us about some of those different types of mortgages?

Andy Tisler:

The 30-year-

PART 2 OF 4 ENDS [00:16:04]

Nadeska Alexis:

You get. Can you tell us about some of those different types of mortgages?

Andy Tisler:

The 30-year fixed has been the staple. It's been the staple historically, it's a long-term mortgage, it has ultimate security in that there the rate will never increase and that the payment will never increase, and it provides a lot of flexibility to home buyers. There's also shorter term options, like a 20 or a 15- year fixed. The 20-year fixed has been a really nice sweet spot in this environment. The payment is higher because you got to pay it off in 20 rather than 30 years, but you can get a nice lower rate typically than a 30-year fixed. So for those that are hoping to get a little bit of a lower interest rate and they're comfortable with that payment, the 20 years, a nice sweet spot, then you have the 15 and 10-year fixed as well. You also do have adjustable rate mortgages, interest only mortgages as well, these are things that we're looking with case by case with clients, but really in my position, anticipating what potentially is ahead, it's a great idea a lot of times to stick with a very safe, conservative mortgage to provide stability in just a lot of volatility in some of these markets.

Nadeska Alexis:

And is there any situation where you would advise that a buyer consider an adjustable rate mortgage like a 10-year adjustable, for example?

Andy Tisler:

Great question. Yeah, the ARM options, generally the incentive there is the rates are lower. So if you can get a five, seven, or 10 year ARM at a lower rate, well, you're going to have savings in that period. So for buyers that know this isn't a forever home or they do have a defined tenure plan to pay their mortgage off, those are two great examples of when an ARM might make sense because they know that it's very unlikely they'll need that mortgage past 10 years. And then there's also those consumers that really just feel comfortable with these products knowing that they want to just get the lower rate, and in 10 years, even if it's not paid off, they'll look at refinance opportunities sometime within that 10 year period. So those are the more active consumers that are actively checking in on mortgage rates, staying in tune with the markets, and looking at opportunities to really refinance within that period before rate adjustments occur.

Nadeska Alexis:

Okay, thank you, that definitely makes sense. You settle into your home, you're keeping an eye on mortgage rates over the next couple years. At which point might you want to consider refinancing? How do you think about the interest rate at that point?

Andy Tisler:

So first of all, it's a good idea to have a trusted lending advisor, so somebody like myself that you can periodically check in with. So for my clients, we're doing annual mortgage reviews as like a baseline, and certainly we can do even more frequent check-ins when necessary, but it really just depends on the cost benefit. It's a very simple formula of what are the costs to refinance, and then what are your monthly and lifetime savings for that refinance? So then you look through what kind of rate savings do you have? How long do you anticipate staying in that home? How much are you really planning to save over that term? So those are the things we look at closely when we look at refinance scenarios, making sure that we're doing it with the best interest in mind for the client, that they're getting good monthly savings, interest savings over the term, and it makes sense for them long term.

Yeah, great question. So there's no pre-payment penalties on any of our mortgage products on the residential side, so theoretically you can refinance anytime, as many times as it makes sense.

Nadeska Alexis:

Okay. And so you mentioned a specific window, so if you close on a mortgage with Chase and you notice two months later the rates have dropped, that refinancing process, does a buyer expect to have to share all of your financial documents, your assets, will you go through the same process again?

Andy Tisler:

When you are refinancing, you are applying for a new mortgage, so you have to basically get loan approval and qualify for loan approval like it's a fresh loan. Now, there's many efficiencies. In many scenarios, we can access and use some of the information from previous files and applications to help streamline the process. There's appraisal waivers that could potentially happen to make it a more streamlined process, so although you're applying for loan approval again independently, there certainly are efficiencies that we can leverage depending on how long ago the last loan application took place.

Nadeska Alexis:

Okay, great, that's really exciting news for people like me who really hate finding and uploading paperwork, so thank you Andy. And so what are some alternative types of funding that are available to first time home buyers?

Andy Tisler:

One of the exciting things that we get to work with right now is our Chase Home buyer grant. So that is a grant program that Chase has allocated funding for. It's in all areas of the country. Depending on the census track of the property, the location of the property, the property may be eligible for either $2,500 or a $5,000 grant, and that these are funds that can go towards closing cost or down payment assistance. So it's an exciting program that we're leveraging to help our home buyers make the buying process more affordable. Chase has a lot of great information online that's available for anyone to view, and certainly the best next step would be to reach out to a home lending advisor, and they can better help clients understand the locations of availability, how that could apply towards their home purchase, and making sure that they can fully leverage that great program.

Nadeska Alexis:

Okay, thank you. And I would like to talk a little bit about just the state of the housing market. So in episode one of the season of Beginner to Buyer, we spoke about the different types of housing markets, so I'm wondering what are a few things that you've seen that have changed from last year to this year that I should really be aware of before going out to buy a home?

Andy Tisler:

Yeah, great question. So last year was a big continuation of what was going on with low interest rates spurring a lot of activity for home buyers, Covid was causing a lot of people to make life decisions. Relocations, moving into different areas, bigger spaces, smaller spaces, just different life changes that had caused people to make moves, and so there was just a lot of activity going on, and lower rates certainly spurred that as well. That caused a huge seller's market to really occur. So for home buyers, they had low inventory, they're facing multiple offer scenarios constantly, and it was somewhat of a tough environment to be in. So now we're seeing a little bit more stability in the markets, it's causing buyers to be able to just get in normally and view and make offers on properties in a more normal setting. But higher interest rates are really now causing, again, back to that buying power, it's causing a lot more conversation around this buying decision where when you had low rates, it was a little bit easier to see payment affordability, and now we're seeing that buyers are really comparing affordability in this inflationary period.

Nadeska Alexis:

Absolutely, I think affordability is the key word you used there, and I think one of the big decisions people are making and you mentioned...

You used there. And I think one of the big decisions people are making, and you mentioned this earlier, is trying to determine if it makes sense to keep renting or buying. So I think what would you say is sort of the fastest or most straightforward way to determine if it's still worth it for you to go out and buy this year versus to just keep renting?

PART 3 OF 4 ENDS [00:24:04]

Andy Tisler:

Yeah, certainly one of the exercises that we look at a lot is just a rent versus buy scenario. And looking at number one, what would the monthly payment difference be if you were to rent or buy a very similar type of a place. And that's really one thing that we look at in terms of buying power, but then also looking at potential upward pressure in the rent space. So we're seeing a lot of areas, rent prices are continuing to see upward pressure. So for people that are ready to make a longer term move, buying is going to have a lot more advantages and you're seeing stability and you're kind of capping your prices. Whereas if you're still a little bit more unsettled in where you want to be long term, especially as people are examining remote work and coming back to work and where should they be positioned longer term. Renting can still make sense just until they have a little bit more stability in long-term prospects.

Nadeska Alexis:

For any of our listeners who are still being a little bit unsure about if now is actually the right time to buy, I recommend you going back to season one, episode three 'is home ownership right for me', I think that might be really, really helpful for you. And Andy, I do have one more question for you. For our Money Matters segment, I was wondering if you could help us out with the math behind the mortgage. What are some of the tools available to help buyers break down all the math that goes into determining whether to finance or refinance a home?

Andy Tisler:

Yeah, great question. So number one, I have a amortization schedule that is open on my computer at all times. So I'm always looking at, when you look at a payment for a mortgage and loan amount rate, what is that payment end up being? One of the things to look at is really how much principle am I earning every year? How much principle will I accumulate in five years of home ownership? Because certainly looking at just a monthly payment, comparison is one thing but if you see that it's costing maybe $200 or $300 a month more to own, but you're gaining $40,000 of equity in five years, that's a huge consideration to make. So certainly looking at how much equity build do I have on different amortizations, and that's something that you can easily pull up through resources online. Chase.com has an amortization calculator as well, and then certainly you can calculate with your mortgage advisor.

The other thing is really looking at a calculator that gives you all-in cost for a property. So when you're looking at a property, it's not only the mortgage, it's property taxes, insurance assessments when there's associations involved. So really getting a good understanding of the all-in payment. And the great thing about running these numbers is Chase has a payment calculator on their website that really can help you run those numbers and really get a good sense when you're looking at a property, or if you're looking at examining a refinance, what kind of payment difference you'll see through different rates, loan amounts when you factor in property taxes, insurance. So it really helps you simulate a lot of grades, a lot of various scenarios that can help you determine what makes the most sense.

Nadeska Alexis:

That is super, super helpful. Andy, thank you so much for taking the time to help us understand everything about financing, refinancing, and interest rates. We definitely appreciate your time.

Andy Tisler:

For sure. Well great to have... Thanks for having me on and great to be with you all.

Nadeska Alexis:

Hopefully Andy cleared up some questions for you about interest rates, refinancing and home buying readiness. Join me next time as we talk about how building and maintaining relationships with your home buying team can work in your favor financially. Until then, you can learn more by visiting beginner-to-buyer.com. And for more information on the topic is home ownership right for me? I think you should check out episode three from season one. Beginner-to-Buyer was created by Magnet Media and Chase Home Lending. Our executive producers are Ashley Bobo and Akash Vaswani. Our lead producer is Pamela Lawrence and our media editor is Matthew DePetro.

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PART 4 OF 4 ENDS [00:29:38]