

HOME
OWNERSHIP
IN
FLAGSTAFF





AGENDA

- Overview of the mortgage process
- How interest rates work and their impact on a buyer's qualification
- Where are interest rates going in the short and long term
- What challenges do lenders see buyers facing now and in the future

INTRODUCTION

- ❖ Been in mortgage industry 27 years
- ❖ Started career in the Valley - Moved to Flagstaff in 1996
- ❖ Loan Officer, Mortgage Branch Manager, Mortgage Trainer
- ❖ Committee Member, Board Member for the Northern Arizona Association of Realtors.
- ❖ HAP Committee Member for Housing Solutions of NAZ.



OVERVIEW OF THE MORTGAGE PROCESS

1. A Buyer is required to get prequalified with a lender before they can make an offer on a home.
2. Once pre-qualified, the buyer shops for a home with a Realtor.
3. Once the buyer has an accepted contract, the formal loan process starts.
4. Once the loan process is complete, the buyer closes and moves into the home!



THE PREQUALIFICATION PROCESS

Prequalification is:

- A calculation of the home price a buyer can afford
- A determination of what loan programs a buyer qualifies for
- A determination of what properties a buyer can qualify for



**YOUR
LENDER WILL
ASK FOR THE
FOLLOWING
DOCUMENTS.**



PAYROLL CHECK STUBS - 30 DAYS

If paid monthly, provide 2 consecutive months



TAX RETURNS - 2 YEARS: 1040S, W2S, 1099

If applicable, provide corporate returns



ASSETS - 2 MONTHS MOST RECENT BANK STATEMENTS



COPY OF PHOTO ID



CREDIT CHECK

Your lender will need your name, home address, date of birth, and Social Security number

*Self-employed borrowers may need to provide additional documentation

WHAT DO LENDERS LOOK AT WHEN QUALIFYING A BUYER?

Credit

- Tri-merge credit report
- Look at the credit scores, view number and types of accounts (revolving/installment)
- Are there any late payments, collections, judgments, past bankruptcy
- Joint and individual debts
- *Is buyer in a position to buy now based on credit?*



740+

Excellent. Leads to premium rates and loan programs.



680 - 739

Very good. Creates ease in obtaining new credit.



640 - 679

Can suggest a second look from some lenders and may require added documentation.



639 & lower

Fair/challenging. May be difficult to obtain financing. Unless VA or FHA financing is secured.

Credit Score

quick guide

Bonus Credit Tips

Ways to Improve Your Credit Score

- ▶ Pay all bills on time
- ▶ Don't apply for too many credit lines
- ▶ Don't max out credit cards
- ▶ Hang on to older credit lines

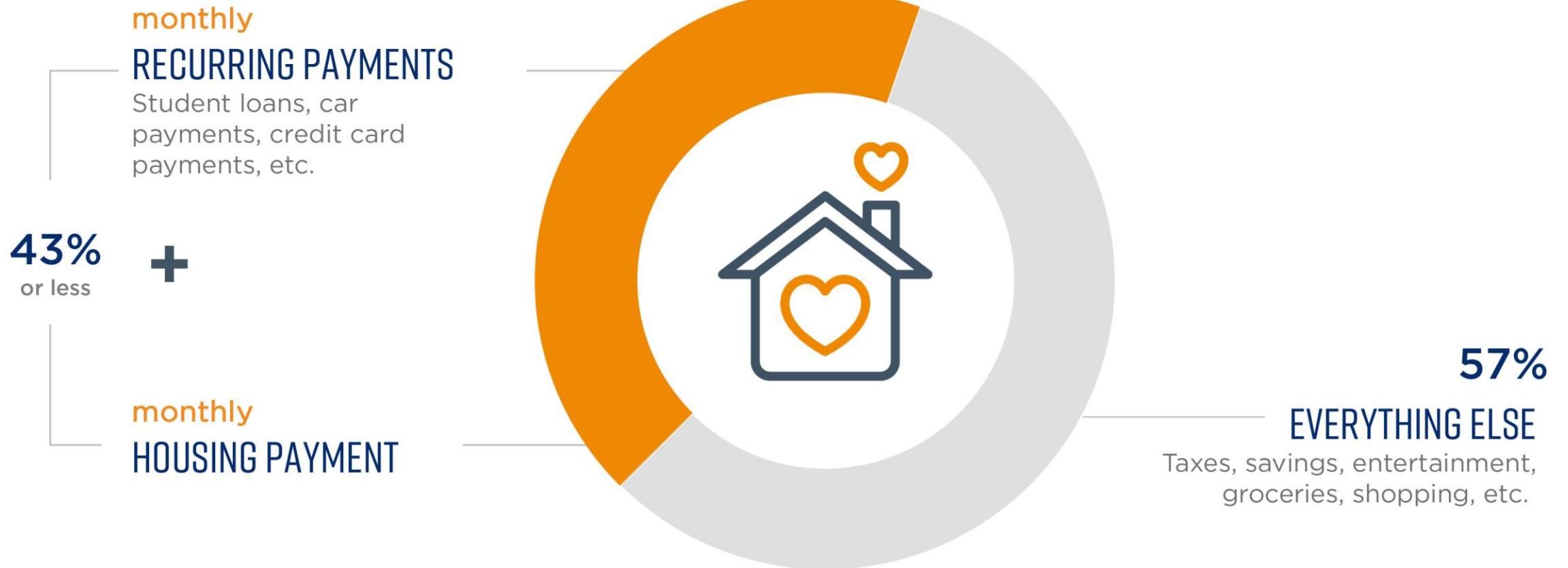
WHAT DO LENDERS LOOK AT WHEN QUALIFYING A BUYER?

Income

- How is they buyer paid? Salary, hourly, commission, self employed.
- Is their income stable and consistent?
- Do they have a 2 year work and/or school history?
- *Is buyer in a position to buy now based on income?*

Debt *to* Income (DTI)

This is the ratio of your monthly debt against your income. Typically the lower your DTI, the more financing options you have.



what makes up your
Monthly Payment?

▶ TAXES

Yearly property taxes

▶ HOA FEES (HOMEOWNER'S ASSOC.)

Monthly payment to your building or community for maintenance and improvements

▶ HOMEOWNER'S INSURANCE

Individual protection for the unit

▶ PMI (PRIVATE MORTGAGE INSURANCE)

Protects lenders against loss if borrower defaults (only paid if putting less than 20% down)

WHAT DO LENDERS LOOK AT WHEN QUALIFYING A BUYER?

Assets

- Does the buyer have any money of their own in a checking, savings, investment, retirement account?
- Do they have a family member that can help them with a gift?
- Do they meet the criteria to do down payment assistance?
- *Is buyer in a position to buy now based on assets?*

LOAN PROGRAM COMPARISONS

Conventional

- 3% down if FTHB
- 5% down if MFH
- Min credit score 620
- Max loan of \$766,200
- Max DTI 50/50
- Seller can cover 3% of purchase price in closing costs

FHA

- 3.5% down
- Min credit score 600
- Max loan of \$525,550
- Seller can cover 6% in closing costs

USDA

- 0% down
- Min credit score 640
- No max loan amount
- Max income of \$110,650 (1-4 people)
- Max DTI of 29/41
- Seller can cover 6% in closing costs

VA

- 0% down
- Min credit score 600
- No max loan amount
- Max DTI
- Seller can cover 4% of purchase price in closing costs

CLOSING COSTS

2-5% OF YOUR PURCHASE PRICE



- Home inspections \$350-1000
- Appraisal \$550-850
- Homeowner's insurance \$800+
- Lender fees \$1500-2000
- Other loan fees \$250+
- Title company fees \$2000-\$4000

THE MORTGAGE PROCESS ONCE A BUYER HAS AN ACCEPTED OFFER



INTEREST RATES....



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*WHAT ARE THE RATES
WE HEAR ABOUT ON
THE NEWS?*

Fed funds rate

The rate at which banks borrow money and that directly impacts

- ✓ Credit cards
- ✓ Car loans
- ✓ Equity loans/lines
- ✓ Depository accounts
- ✓ CD's



HOW DO MORTGAGE RATES WORK?

- **Mortgage rates are determined by the bond market.**
- **A bond is issued to raise capital without giving up ownership. And there are different types of bonds - mortgage, corporate, and treasury bonds.**
- **A mortgage bond is a collection mortgages, known as mortgage-backed securities.**
- **When a mortgage is issued for a borrower to purchase a home, the lender sells the mortgage in the secondary market to an aggregator.**
- **These aggregated mortgages are pooled together and sold to investors.**

WHAT DRIVES MORTGAGE RATES?

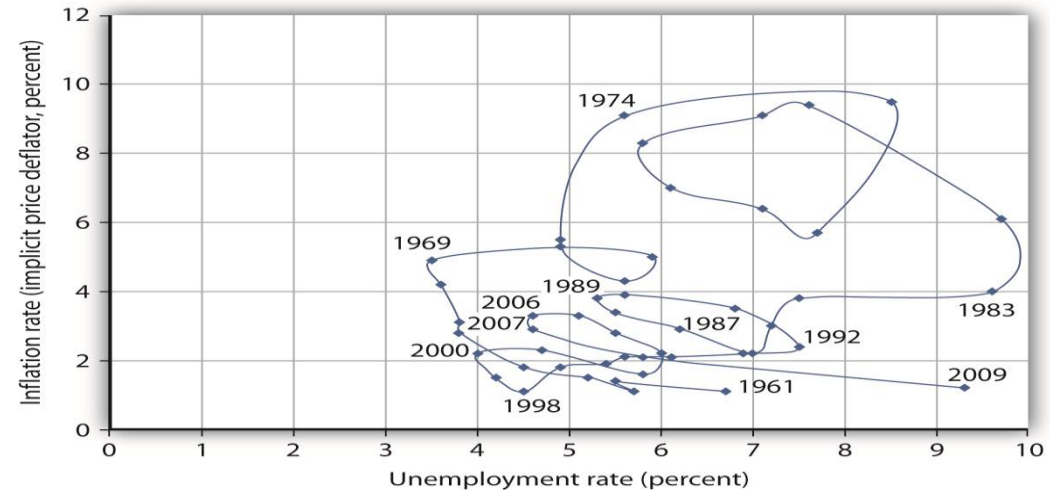
State of the economy

- Inflation
- Recession



Economic Reports- 50 to 80 reports and events every month

- Employment
- Housing
- Manufacturing and Shipping
- Consumer price index and Personal Consumption
- Retail Sales
- Consumer confidence
- Other country's economic conditions/decisions



Credit quality/risk of default



WHY ARE RATES SO HIGH RIGHT NOW?



Market Odds on Fed Cut

| Upcoming Fed meetings | Fed Funds Futures cut odds |
|-----------------------|----------------------------|
| January 31 | 7% |
| March 20 | 68% |
| May 1 | 94% |
| June 12 | 100% |
| July 31 | 100% |
| September 18 | 100% |
| November 7 | 100% |
| December 18 | 100% |

56% chance of 50bp

91% chance of 50bp, 53% 75bp

WHAT CAN THE AVERAGE BUYER IN FLAGSTAFF AFFORD?

What can someone at today's rates afford?

\$70,000/year \$5833/mo.

No monthly debt

Credit score of 725

(Conventional loan max DTI is 50% which means total payment has to be less than \$2916)

\$370,000 purchase price with 3% down (\$11,100) at 7.25% =

| | |
|----------------|------------|
| P&I | \$2448 |
| HOI | 80 |
| Taxes | 178 |
| <u>Mtg Ins</u> | <u>194</u> |
| Total Pmt. | \$2901 |

If rates were at 6% - max purchase price = \$410,000 and monthly payment of \$2900

If rates were at 5% - max purchase price = \$450,000 and monthly payment of \$2902

What if they have monthly debt?

\$70,000/year \$5833/mo.

\$400 monthly debt

Credit score of 725

(Conventional loan max DTI is 50% which means total payment has to be less than \$2516)

\$315,000 purchase price with 3% down (\$9,4500) at 7.25% =

| | |
|----------------|-------------|
| P&I | \$2084. |
| HOI | 80. |
| Taxes | 152. |
| <u>Mtg Ins</u> | <u>166.</u> |
| Total Pmt | \$2482. |

If rates were at 6% - max purchase price = \$355,000 and monthly payment of \$2503

If rates were at 5% - max purchase price = \$390,000 and monthly payment of \$2505

What about a Condo?

\$70,000/year \$5833/mo.

\$400 monthly Debt

Credit score of 725

(Conventional loan max DTI is 50% which means total payment has to be less than \$2516)

\$315,000 purchase price with 3% down (\$9,4500) at 7.50% =

| | |
|----------------|-------------|
| P&I | \$2084. |
| HOI | 80. |
| Taxes | 152. |
| HOA | 200. |
| <u>Mtg Ins</u> | <u>166.</u> |
| Total Pmt | \$2482. |

If rates were at 6% - max purchase price = \$328,000 and monthly payment of \$2515

If rates were at 5% - max purchase price = \$360,000 and monthly payment of \$2513

Teacher or Police Officer making \$50,000/year

\$50,000/year \$4167/mo.

No debt

Credit score of 725

(Conventional loan max DTI is 50% which means total payment needs to be less than \$2083)

\$245,000 purchase price with 3% down (\$7,350) at 7.50% =

| | | |
|----------------|------------|---|
| P&I | \$1662 | |
| HOI | 50 | |
| Taxes | 62 | |
| HOA | 173 | <i>(Only potential option is a condo)</i> |
| <u>Mtg Ins</u> | <u>128</u> | |
| Total Pmt. | \$2075 | |

If rates were at 6% - max purchase price = \$280,000 and monthly payment of \$2068

If rates were at 5% - max purchase price = \$310,000 and monthly payment of \$2072

FLAGSTAFF SUPPLY AND AFFORDABILITY

Supply & Demographics

Homes Being Built in 86001
1,084/yr

| New Listings Area | January | Current Month |
|-------------------|--------------------------------------|---------------|
| ZIP: 86001 | 19 280% M/M 90% Y/Y | 4 |
| County: Coconino | 95 126% M/M 94% Y/Y | 34 |

Demographics by Age

Based on total Population of **145.5k**

| Age Group | Population |
|-----------|------------|
| 18-26 | 35k |
| 27-35 | 20.7k |
| 36-44 | 14.6k |
| 45-54 | 17.2k |
| 55-64 | 16.2k |

Homeowners & Renters

| Category | Count | Percentage |
|------------------------------------|-------|------------|
| Renters | 62.8K | 32% |
| Renters who can afford to purchase | 15.8K | 11% |
| Homeowners | 82.7K | 57% |

Affordability in Coconino

Median Household Income
\$67,027

National average: \$74,580

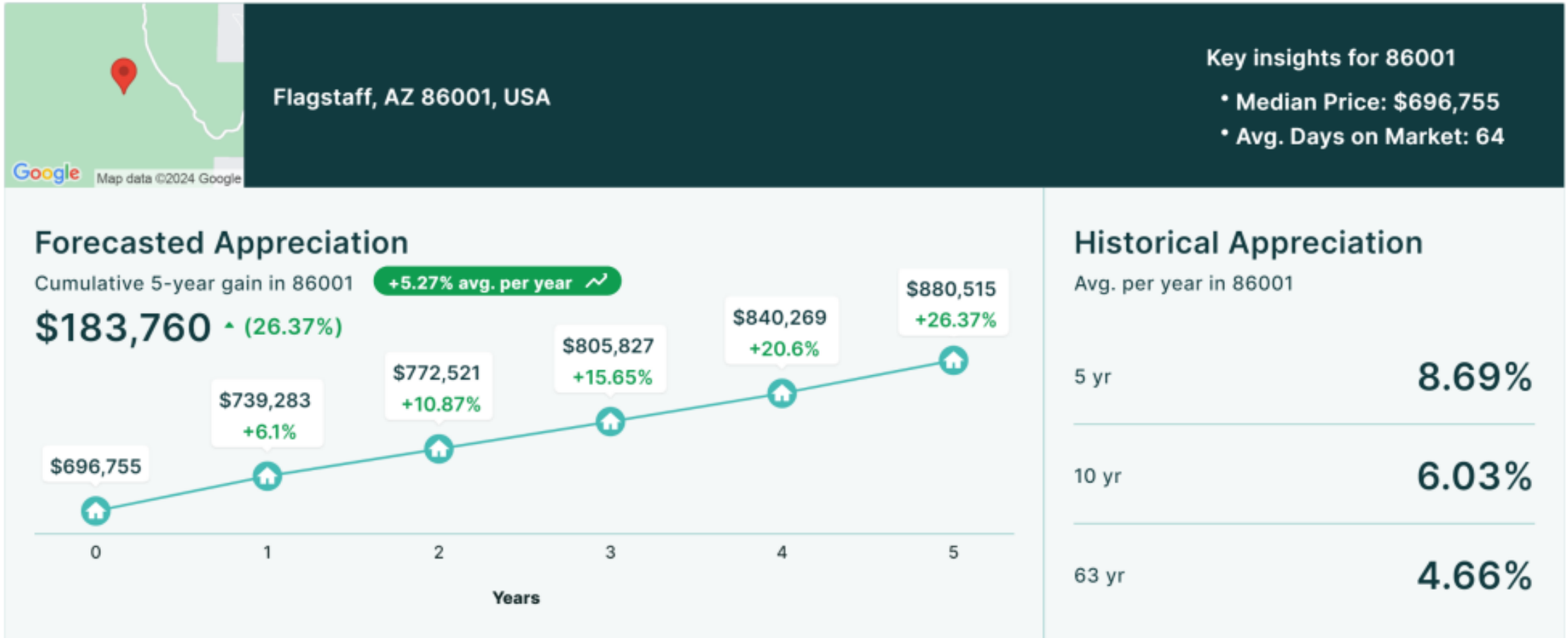
Affordability Index

At 100, a household earning the median income can afford the median home price, with 20% down.

63

| Year | Affordability Index |
|------|---------------------|
| '04 | 110 |
| '05 | 90 |
| '06 | 75 |
| '07 | 78 |
| '08 | 100 |
| '09 | 125 |
| '10 | 145 |
| '11 | 135 |
| '12 | 125 |
| '13 | 128 |
| '14 | 128 |
| '15 | 125 |
| '16 | 118 |
| '17 | 125 |
| '18 | 125 |
| '19 | 115 |
| '20 | 75 |
| '21 | 65 |
| '22 | 63 |

FLAGSTAFF HOME APPRECIATION



WHAT'S THE BIGGEST ROADBLOCK FOR BUYERS THAT HAVE THE INCOME TO QUALIFY?



DOWN PAYMENT ASSISTANCE OPTIONS

- **Home Plus – State program**

- Income limit \$126,351
- Standard DTI requirements
- Up to 5% in assistance when rates are lower
- Higher interest rate to pay for assistance
- Fees eat up 2-3% of the assistance
- Most buyers still need closing cost assistance so need seller concessions

- **Lender paid FHA DPA**

- No income limit
- Standard DTI requirements
- 2 to 3% in assistance
- Higher interest rate to pay for assistance
- Most buyers still need closing cost assistance so need seller concessions

- **Housing Solutions**

- Restrictive income limits
- Restrictive DTI requirements
- Assistance based on a match of buyer's funds
- No increase to the interest rate

CURRENT AND FUTURE CHALLENGES FOR BUYERS IN FLAGSTAFF

- Wages/job options, and cost of living make it difficult to save
- Current inflation causing people to increase credit card debt
- Income/DTI limits on local DPA programs exclude buyers that just need help with down payment/closing costs
- Homeowner's insurance premiums increasing significantly
- Inventory is low and will continue to remain low
- Rates will eventually come down
 - *Lower rates and continued low inventory means seller can be picky on what offers they chose.*
 - *Sellers won't cover closing costs.*
 - *Bidding wars increase property values and push buyers out of the market*