

Buying a Home in 2023

0:06 Megan:

Financial wellness includes the ability to manage money in a way that gives you peace of mind and empowerment to make your own choices. At Golden 1, we're here to help with unbiased financial guidance. As a not-for-profit member owned credit union, our main goal is to help you reach financial well-being. Join us as we discuss why financial knowledge matters and how to apply it to your financial journey. Together, we can be golden.

Hello and welcome to the Golden 1 Financial Wellness Podcast- I'm Megan.

0:40 Barbara:

And I'm Barbara. We are from Golden 1 Financial Education. Thank you so much for joining us today. A hot topic at this time of the year is homeownership. This particular year is different from years past because the housing market has changed a lot.

0:57 Megan:

You're right. The recent increases and prime interest rates can be attributed to actions of the Federal Reserve, which has taken steps to combat inflation by raising the Federal Funds Rate. The Federal Funds Rate is the interest rate at which banking institutions lend money to each other, and it serves as a benchmark for other interest rates in the economy, including mortgage rates.

When the Federal Reserve raises the Federal Funds Rate, it becomes more expensive for banking institutions to borrow money, which can lead to higher interest rates for customers. In the case of mortgage rates, this can make it more expensive for people to buy or refinance homes. As a result, we've seen a rise in mortgage rates with 30 year mortgage rates hitting their highest levels since October of 2007.

It's worth noting here that that federal funds rate doesn't directly affect mortgage rates. Rather, it serves as a guidepost, if you will, for lenders who use it as a reference when setting interest rates on various types of loans, including mortgages.

2:07 Barbara:

It definitely affects home mortgage loans. It increases the cost of borrowing money and therefore mortgage rates go up. So the higher the mortgage rates, it tends to push out those people that were

ready to buy or thinking about buying and kind of sitting and waiting to see what our rates going to do. Are they going to continue to go down or are they going to level off?

And it makes just people wait a little bit longer than normal.

02:39 Megan:

This can then push home prices down and it affects availability of homes. About 75% of outstanding mortgages have rates under 4%. It's going to take a lot of enticement for those owners to sell their homes and trade their low-rate mortgages for home loans with rates of 6% or higher.

03:00 Barbara:

A lot of people that were thinking of selling their homes also are waiting and deciding what should they do next. So- some people, instead of selling, they may rent out their house. They may decide, you know, instead of selling at this point, because prices have gone down, they may just become landlords, which leads to a whole other set of things to think about and worry about.

3:23 Megan:

So now if we think about it, home ownership, it really boils down to a choice. Do we buy now, or do we wait it out? And there's always pros and cons to this debate. So- let's kind of go over these choices, Barbara. And let's start. You know- if we choose to buy right now.

3:40 Barbara:

If you choose to buy right now, there are, like you said, always pros and cons. The first thing that I always tell my clients, I used to be in the mortgage industry for many, many years, long time ago. And then I've coached so many people that I always tell them, don't try to time the market. Be ready when you're ready.

And when you're ready means your finances are ready. A lot of us need to improve our credit score, or maybe we need to save more money, and so therefore we're not 100% ready. So why rush to buying if buying right now before rates go higher or before, you know, prices change any more or maybe go up again? Really ask yourself, are you financially ready or are you trying to rush the process?

4:32 Megan:

It's like you said, pros and cons to this choice. I think the pros, we start making payments. If we start building equity in an investment rather than you know, paying landlords for that investment is

homeownership can provide that stability, security and the opportunity to build that equity over time. And of course, there's some cons we're well aware of because of those higher interest rates, your buying power is less and you'll potentially need to, you know, refinance when interest rates are lower and this can also be costly.

5:05 Barbara:

If you choose to buy now. It's important to do a few things. Make sure that you get pre-qualified or pre-approved. This gives you an idea of how large a loan you'll be likely to qualify for. Then you want to find a real estate agent to work with. They will know the market. They will know the area that you're looking to buy and they will guide you through the process.

They will offer you objective information about the home as well as the area that you're looking to buy. Then also, they will help you give extended search power because they have a way and systems to search for all areas and houses that are being placed on the market immediately.

5:56 Megan:

Another big added pro to those real estate agents is that they're well versed in those programs that are available and we should take advantage of those programs. If you're looking to buy your lender and real estate agent- they are not only a great resource for homes, but they give good advice on these programs that fit your financial situation and your market area.

Golden 1, for example, has the Golden 1 Buyer Advantage program. So listen to our Buyer Advantage Program podcast that recently came out. We have lots of information on that particular program, but there is a lot of programs that are out there. That's why it's so important to reach out to that real estate agent and see what resources they have access to.

6:38 Barbara:

The Buyer Advantage program is a great program, has a lot of great benefits to the buyers. But now if people choose to wait it out, it's okay. Like we said, everything has a pro and con. One of the great things about waiting at this time, especially since interest rates are a little bit higher, is that it gives you time to save for the bigger down payment.

And we know that with a bigger down payment, your monthly mortgage payments will be lower and potentially you could get a better interest rate. The more money you put down, the better it looks for the application, the mortgage application. Also, you would have time to save for closing costs. Closing costs are expensive. It's a lot of times about 3 to 6% of that loan amount.

So it's a significant cost. Saving for those is important and a lot of times we need a little bit more time for that and post reserve funds. Post reserve funds are those in case we need to fix something in the house- in case we lose our job or have to be out sick. And now we need to continue making our mortgage payment.

So. Post reserve funds are so important not only for us and to have peace of mind, but also they look really good in your mortgage application because the lender knows that you're ready, that you have a safety net to fall back on.

8:12 Megan:

And let's not forget the importance of your credit score when it comes to waiting this out, because if you have the time to improve your credit score, maybe you pay down your balances on credit cards or student loans, auto loans and all your other debt obligations, you reduce that outstanding debt. This then helps you lower what we call your debt-to-income ratio, which is the amount of debt you have compared to your income. This ratio is an important factor that lenders consider when evaluating those loan applications.

A lower debt to income ratio improves your chances of qualifying for a loan with better terms and lower interest rates. And this can save you money over the life of the loan and can decrease the amount that you ultimately will need to take out for that loan to begin with. Of course, there's some cons.

9:06 Barbara:

There are always cons, as we've been talking about. Yes, if you choose to wait, we don't know what the market is going to do is it going to continue to lower prices? Are the interest rates going to continue to go up? It's just up in the air and we take that risk. So any financial decision we make, it is a risk that we're taking.

And if you choose to wait, make sure that you're putting that time and that ability to save extra money to work. I recommend you create a budget and become very diligent with it, that you actually are mindful of where your money is going so that you know exactly what you did in this time that you're waiting. Make savings a priority, especially if buying a home is your dream, whether it's now or in the future.

Making savings a priority is key and then pay down debt. It gives you also that time, like you mentioned, for your credit, and to pay down debt, make it one of the priorities. Make sure it's allocated for in your budget so that you can map out what you're doing in the time that you're waiting.

10:28 Megan:

I want to thank you so much for joining us today and really weighing out the pros and cons of purchasing a home in 2023. To learn more about Golden 1 home loans visit [Golden1homeloans.com](https://www.Golden1homeloans.com) or call 1- 800 917-9000 or stop by your local branch- they will be happy to see you and talk about your pros and cons to buying a home.

And check out our financial wellness tab at the [Golden1.com](https://www.Golden1.com) website to find a lot of other resources like videos, interactive modules and webcast. You don't even have to be a member to use them. Plus, if you

haven't already done so, subscribe to the Golden 1 Financial Wellness podcast on Apple, Google and Spotify to get more financial tips and insights.

Thank you so much for joining us today. This has been Megan.

11:24 Barbara:

And Barbara, wishing you financial, health and happiness and as always, reminding you to.

11:32 Megan and Barbara:

Stay golden!

11:37 Megan:

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