



## **OVERCOMING THE PITFALLS OF HOME BUYING IN THE NEW NORMAL**

### ***HOMEBUYERS FACE SOME NEW HURDLES TO TAKE ADVANTAGE OF HISTORICALLY LOW RATES***

With interest rates at historic lows, you may have heard that it is the perfect time to buy a home, that you should get in on the market now. Currently, with a good credit score, you may qualify for rates as low as 3-3.5 percent. With a lower rate, you would enjoy lower monthly payments and save money over the life of the home loan.

Still, given economic uncertainty, record-high unemployment, and a pandemic, is it the best time to buy? If so, what is the market really like, and what do homebuyers need to know before they jump in? We asked ten experts for their advice on how homebuyers can overcome common and current pitfalls when buying a home in this new normal.

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#### **YOU MAY FACE TIGHTER LENDING RESTRICTIONS**

The housing market crash of 2008 left many lenders and loan investors gun-shy of an economic downturn. When the market crashed before, investment companies that were heavily invested in risky real estate loans folded. This was a big cause of the Great Recession as a whole.

As a result, says Barnaby Robles, Branch Manager of Wells Fargo and local home consultant in Coral Gables, Florida, many lenders are tightening lending restrictions.

“The best way to explain it is that lenders, specifically investors that these loans are being sold to on the secondary market, have tightened the box a little bit,” Robles explains. “They have an appetite for less risky loans because of the obvious concerns around COVID-19.”

The result is that many (not all) lenders are limiting loan approvals to only the most qualified buyers.

“The biggest changes that have happened have been around credit, DTI, and reserve requirements,” Robles continues. “For example, in FHA lending outside of banking, prior to COVID-19 allowed your DTI to be almost to a max of 57%. Now some of those lenders have

brought down their DTI box to 50% or less. Agency financing, so this is conventional financing, typically is 50%. Many lenders have placed restrictions now at 45% or less.”

### **Make sure you are mortgage-ready**

One way to ensure you can meet the requirements to qualify for a mortgage is to consult with a HUD-certified housing counselor.

“Some lenders have certainly tightened their requirements. This generally affects more challenged borrowers with credit scores below 700 and those with less capital available for a down payment,” says Barry Rothman, Housing Counseling Program Manager with Consolidated Credit. “But homeownership still remains within the reach of the majority of individuals with sufficient income, capital available for a down payment, and good credit scores.”

“An experienced housing counselor can help a potential buyer to determine if they are mortgage-ready and what type of loan (and amount) they may be able to qualify for.” Barry Rothman, Consolidated Credit

### **Shop around for a home loan, so you know what options are available**

In a market where some lenders are tightening lending requirements, it is more important than ever that homebuyers shop around extensively when looking for a mortgage lender.

“Explore options that are available because the restrictions that one lender may have, other lenders may not have,” says Robles. “The only way to know is to shop around and find out what their options are.”

Keep in mind that when shopping for a home loan, you can submit multiple applications within 45 days without negatively affecting your credit. This will allow you to find the right lender and loan. Make sure to check with your financial institution, other national and local banks and credit unions, as well as online mortgage lenders.

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### **THE HOUSING MARKET IS COMPETITIVE AND VOLATILE**

“The real estate market has been on a crazy roller coaster since the pandemic first hit. Initially, the market came to a screeching halt. There was little to nothing going on. Buyers were not looking at houses, and owners were not putting their homes up for sale,” says Bill Gassett, Realtor®, RE/MAX Executive Realty. “All that has completely changed. The market is very busy. It is not uncommon at all to see homes getting multiple offers and selling over asking price.”

Of course, the health crisis is not over. Even as states reopen, rates of confirmed coronavirus cases and hospitalizations are on the rise again. Some states are even slowing down on reopening plans. This makes for a volatile market that can be hard to predict.

“There is a lot of uncertainty. Home prices are at historic highs in many markets, and yet we are in the middle of a major recession,” Miron Lulic @SuperMoney #homebuying

“Not surprisingly, the latest Gallup survey shows that only 50% of Americans feel it is a good time to buy a house,” Lulic, CEO, and founder of SuperMoney.com, says “Americans are typically bullish about the housing market, and that is the lowest percentage since Gallup started asking in 1978.”

Given the current market conditions, homebuyers may face an uphill battle to get an offer accepted. On top of that, they also need to worry about market downturns and economic uncertainty. These tips can help people looking to buy right now in these conditions:

### **Get a pre-approval letter**

Home sellers want to know that a buyer can really afford their home. If they are getting multiple offers, they’re going to go with the most qualified buyer among them.

“A significant pitfall for buyers is the fact it is very easy to lose out on a home they absolutely love,” says Gassett. “Besides getting the most they can for their home, sellers are looking for financially sound buyers who have a solid down payment and a **trustworthy pre-approval letter from a reputable lender.**”

“When a buyer sees a home they like, they must pounce immediately or risk losing out.” Bill Gassett

So, once you find a lender that is willing to work with you, make sure to get a pre-approval letter that will show a seller that you’re fully qualified to buy their home.

### **Find the right real estate agent**

While there is no requirement for a homebuyer to work with a real estate agent to buy a home, it can be highly beneficial, particularly for first-time buyers in a seller’s market.

“Working with a reputable buyer’s agent is critical to understanding the local market,” says Gassett. “An exceptional agent can provide the advice necessary to put their clients in the best position to be the winning bidder.”

### **Consider getting a COVID-19 rider**

Pre-approval letters and working with an experienced buyer’s agent have always been best practices for homebuyers. However, something new is that you may want to consider getting a rider for your real estate contract.

“It is becoming more commonplace to include COVID-19 riders that are being attached to real estate purchase transactions,” says David Reischer, attorney and CEO of LegalAdvice.com. “Many attorneys are drafting these COVID-19 riders specifically to give all the parties an understanding of how to proceed in the event COVID-19 affects the transaction.

“The language included in a COVID-19 rider protects both the buyer and seller in the event circumstances change due to COVID-19.” David Reischer

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#### **BE AWARE THAT YOUR FINANCIAL SITUATION MAY CHANGE**

No one can say for certain what will happen in the fall or even in the next few weeks. If states are forced to reinstate stay-at-home orders to stop the spread of coronavirus, we could face even higher unemployment, pay cuts, and furloughs.

This means homebuyers need to be especially careful when choosing a home and a mortgage.

“For anyone considering buying during the time of COVID, I would be extra aware of your job security and even the security of your current salary,” says David Rae, CFP from CFP and Accredited Investment Fiduciary. “If you have the income and down payment, go for it and buy a house now. If not, you may be better off cleaning up your finances or looking for a home that fits your income and lifestyle.”

#### **Be conservative when estimating the payments you can afford**

“Be extremely careful when you ‘right-size’ your mortgage because you don’t know if you will lose your job or get a pay cut over the next year,” Ten Jenkin

“In general,” Jenkin, CFP, CEO and co-founder of oXYGen Financial, says, “the conservative approach is to have your P.I.T.I (principal, interest, taxes, and insurance) be no more than 25% to 28% of your post-tax monthly income.”

Rae agrees, saying P.I.T.I. payment estimations should err on the side of caution, particularly for homebuyers who have other debts, such as student loans, car payments, and credit card debt.

“You don’t want to be house poor,” says Rae. “Keeping your housing cost in check will still allow you the freedom to enjoy life, travel, and save for the future.”

#### **Understand that home values may fall**

Our experts also warn that homebuyers need to think about how this crisis may affect the market in the short- and long-term.

“Selling a house is not as easy as moving apartments to save money, especially during a recession when it can be harder to sell a home.” David Rae

“Potential buyers who are unsure if they will stay in the home for a significant period of time could run into difficulty should they look to sell at a time when home values are falling,” Rothman says. “That scenario is possible in the event of a prolonged recession.”

Jenkin also warns that homebuyers also need to consider how the pandemic may affect future real estate trends.

“Be careful about buying in major densely populated cities,” Jenkin says. “You could see real estate values fall due to an exodus of people leaving big cities, being able to work at home, and seeking more rural areas to live in within states that have no income tax.”

### **Ask about getting a homebuyer rebate at closing from your agent**

One way that homebuyers can save at closing and increase funds available for repairs and improvements is to ask about a homebuyer rebate.

“One of the greatest mistakes homebuyers make is not asking for a home buyer rebate at closing from their agent.” Ben Mizes

“In 40 states, agents are allowed to rebate part of their commission during closing to their client,” says Mizes, co-founder and owner of Clever Real Estate. “This rebate can be used towards repairs, closing costs, or anything related to the home buying process.

“It's typically capped at 1%, but on a \$200,000 home, we're talking about \$2,000. That's a serious chunk of change, especially for a home-buyer that's just put down a large down payment.”

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### **BE PREPARED FOR THE HOME BUYING PROCESS TO TAKE LONGER**

In normal circumstances, it takes about 30-45 days to close on a home once you make an offer. The process of finding a right home can take weeks or months, depending on your agent and how prepared you are when you go house hunting.

However, our experts warn that furloughs and social distancing restrictions may increase the amount of time it takes you to find a close on a home.

### **There may be delays in inspections and appraisals**

“Home inspections and appraisals have been significantly delayed with many inspectors and appraisers unable to complete their reports on time due to the outbreak of COVID-19,” says Reischer.

### **Getting approved for your loan may take longer**

Reischer also warns that furloughs at financial institutions may affect how quickly a buyer can get approved for a loan.

“The pandemic has significantly delayed the underwriting process,” he says, “with many bank employees unable to approve loans due to a shortage of staff.”

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### **MAINTAINING SOCIAL DISTANCING WHILE YOU BUY**

Social distancing guidelines have also affected the process of finding a home. Homebuyers need to be aware that social distancing guidelines may affect their ability to tour homes and attend open houses.

However, Paul Atkinson, CEO and Manager Broker of PRA and Company Realtors, says most homebuyers still want to see what they are getting into in person.

“About 75% of our buyers are wanting and ready to view homes physically.” Atkinson explains, “while 25% of them are using our Virtual Services for Viewing, Contracting, and Closing.”

Buyers need to keep social distancing guidelines in mind when looking for a house, but still need to do their due diligence to make sure they are getting the right property.

### **Do not skip inspections for the sake of social distancing**

Homebuyers have the option of hiring a private inspector to inspect the house fully with the buyer’s best interest in mind. Inspections run from \$200-\$400, but Dustin Heiner, a real estate property investor says it is worth the cost.

“Home inspectors are worth every penny, and they work hard inspecting every area of the house,” Heiner says. “Crawling through the attic, inspecting the electrical panel, or shimmying through a crawl space: these are all things that home inspectors do to make sure you know everything you need to know about the property.

“It is the inspector's job to fully inform you of the condition of the house to make you completely aware of everything they can possibly see.”

“Save yourself many future headaches and get a home inspection before you buy your next property.” Dustin Heiner

### **Take advantage of virtual appointment options**

While most buyers may still want to see homes in person. Atkinson explains there are virtual options available for many stages of the home buying process.

“Today's homebuyers can use Total Virtual Service if they so choose,” he says. “They can view the property on video call by FaceTime, WhatsApp, or Zoom meeting rooms online.”

Even if you want to see the final home you decide to buy in person, using these virtual options for preliminary visits by your agent can help you maintain social distancing as you narrow your search.

Once you find the home of your dreams, Atkinson says many of the next steps in the process can also be done virtually.

“Homebuyers can review and sign their contract, virtually in a Zoom meeting room, then close virtual with one of our recommended Virtual Title/Closing companies,” Atkinson continues. “It can all be done virtually today, from beginning to end.”



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