

Ways To Afford a Home in an Inflated Economy

With the double-whammy of rising interest rates and steep inflation, buyers across the country have to rethink what they can afford to spend and what they can afford to buy.

The inflation rate dropped from 9.1% to 8.5% last month, which is good news from the macroeconomics perspective — but for regular homebuyers shopping for houses in the real world, it was a barely noticeable blip.

Not only are home prices inflated, but people have less to spend, in general, because inflation has driven up the cost of everything. At the same time, interest rates have risen so quickly that money is much more expensive to borrow for anyone seeking a mortgage.

Adjust Your Budget to the New Reality

Reconfiguring a budget for something as big as a home purchase is a complex process with many moving parts — and the easiest place to start just might be at the end.

“I recommend determining your absolute cap, or the most you can spend on your monthly mortgage payment, and working backward from there,” said James Anderson, CEO of Veritas Buyers. “If you plan to spend more than before, consider a larger down payment. Twenty percent of a \$400,000 house is a lot more than 20% of a \$350,000 house,” Anderson said. “There are also higher living costs and rising prices of ancillary goods and services, such as those associated with your move and home maintenance and repairs.”

Rethink Your Hunting Grounds

Once you recalculate what you’re able to spend, now it’s time to rethink what — and where — you’re able to buy.

“When you make changes to your budget, you may want to reconsider your house-hunting strategy,” Anderson said. “Looking at smaller properties or townhomes, searching in more rural, less in-demand areas, or simply shopping in lower price ranges may be necessary. If you choose the latter option, proceed with caution, especially if you’re looking for a fixer-upper. Because costs are rising, repairing or renovating a property will cost you more than before. The materials required for a home renovation will most likely be more expensive and take longer to arrive than anticipated. Buyers must plan ahead of time, even if they are only doing a minor facelift on their new home.”

First-Time Buyer? Explore Options Just for You

If this is the first time you’ve purchased a home, or the first time you’ve purchased a home in a long time, there might be free money out there waiting for you to claim it.

“The federal government, in an attempt to make homebuying more accessible for first-time buyers, has a list of grants that

don’t require any sort of repayment, so they are perfect for most first-time buyers,” said Eyal Pasternak, founder of Liberty House Buying Group.

Pasternak mentioned the National Homebuyers Fund — which has given \$394.7 million in down payment assistance to 46,000 people or families — but according to Homebuyer.com, other options include:

- The Down Payment Toward Equity Program
- The Homebuyer.com Forgivable Mortgage
- State and local government grants

Roll the Dice With a Shorter-Term ARM

When industry publications refer to the current mortgage rate, they’re talking about conventional 30-year fixed-rate loans. But three decades of stable, predictable payments will cost you — and the expense is rarely necessary. There are cheaper options out there that might make more sense.

“Borrowers can find significant savings by choosing a loan term more consistent with the period of time they may own the home,” said Tim Trainum of Tim Trainum Properties. “The average buyer will sell the home in about seven to 10 years, often making it unnecessary to purchase a 30-year fixed rate.”

Loans with variable rates are riskier because your monthly payments can suddenly rise, but you can still lock in a fixed rate for up to a decade before your payments change.

“A lower rate 7-1 or 10-1 adjustable-rate mortgage (ARM) can produce significant rate savings,” Trainum said.

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Robert Boucher, WCCU's Vice President of Lending will be appearing on WPRI, Channel 12's The Rhode Show to discuss Mortgages and rising rates.



Tune-in on 9.12.22 or check out the recording on our Social Media:



Robert Boucher
Vice President of Lending

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