

January 1, 2021



Happy New Year From Fannie And Freddy

A client of mine asked me last week about purchasing new construction out-of-State after we sell their home in Anchorage in the Spring. "How will the lending environment be, and should we pay cash instead of borrowing for a new home?"

In an effort, along with the Fed (Central Bank of the United States), to make home buying as easy as possible in 2021, Fannie Mae and Freddie Mac have new home loan limits effective today for all boroughs in Alaska. Maximum conventional loan for a single family residential property is \$822,375.

The VA loan limit for military veterans (and certain Federal Government employees) is officially also \$822,375, although higher VA loans are available depending on a particular Investor buying the loan. These numbers are designed to cover the escalating cost of housing and mean that with 20% down a conventional loan can buy a property over \$1 million (\$1,027,968.75 to be exact) if you otherwise qualify. FHA loans remain maxed out, more modestly, at \$417,750. AHFC typically allows loans 10% higher than Conventional but the specifics were not available at the time of writing.

However, the question is interesting for other reasons. How much debt should an individual hold? Normally, it is my personal philosophy that zero debt is a prudent goal for personal financial security. To own your own home outright means you have your piece of the planet that is entirely yours, fenced or not. At a point starting at the center of the earth and expanding from your lot corners to space, the earth surface, sub-surface and the air space are yours.

However, times are not normal and I cannot remember when a 30 year interest rate was 2.75%, even in my extensive lifetime. I told my client that interest rates are almost certain to remain incredibly low through 2021. Highly probable under 4%, quite probable under 3.5%, and possibly hovering near 3%. The Federal Government is frantically trying to re-boot the economy as the economic shock of the Pandemic persists.

The Fed's dual mandate is to promote maximum employment and keep inflation of prices at a reasonable level. Since there are 6 million people currently filing for unemployment claims and inflation is well below the 2% target, the Fed is keeping interest rates low by pumping billions of dollars into the economy each month by issuing and buying back its own Treasury Notes

and Bonds. This will inevitably produce serious inflation in 5 years time or less.

In these days, when money is almost free to borrow, there is a strong argument to obtain the maximum loan possible. It just makes business sense. In 5 years time, when inflation has increased and the economy back to an equilibrium, people buying homes will not believe how inexpensively you obtained your 30 year mortgage.

Ultimately, debt ratios in a household are a very personal decision. While Americans have succumbed in the past to maxing out credit on vehicles, housing and personal items through credit cards, there is a strong argument to take the near-free money offered at this time for housing. Fannie and Freddie, and myself also, wish you a happy, prosperous and optimistic new year.

Dave

Windsor

