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Alaska REAL ESTATE BY DAVE WINDSOR

Elite AGENT duPont REGISTRY

RE/MAX Dynamic Properties • 907.727.3300 • windsor@alaska.net • www.davewindsor.com

BUYER LEVERAGE KEEPS CASH IN YOUR POCKET

The current real estate market, drifting towards a "Buyer's Market", particularly in homes over $500,000 and Condos $200,000 to $300,000, has re-ignited a Buyer opportunity to purchase a home with minimal cash.

In a normal market, Sellers are reluctant to provide what, in the business, is called "Concessions". Concessions consist of financial aid from Seller to Buyer other than a negotiation of Price.

Buyers now have leverage to claim, and win, these cash concessions. Motivated sellers will pay for your closing costs. This means you, the Buyer, can keep cash in your pocket for other items you will need in your new home (e.g. Furniture or other Upgrades).

How much cash can you ask the Seller to Contribute?

This depends on your financing. Are you using FHA, VA or a Conventional loan to buy the property?

FHA:- This Federal Program requires 3.5% downpayment that must come from the buyer, but a allowance of 3% of the sales price is permitted to be paid by the seller towards your closing costs.

The 3% allowance will just about cover all your closing costs, prepaids, and reserves for taxes and insurance. This means that an FHA buyer can virtually purchase a home for 3.5% of the sales price (the cash you need) if your Realtor can negotiate the 3% seller contribution to those closing costs.

VA:- This Federal Program, designed for people who have given military service to their country (and certain other civil servants federally employed), requires a zero downpayment and an allowance of 4% of the sales price that the seller may contribute to closing costs, prepaids and reserves.

The 4% allowance will inevitably cover all the expenses associated with your loan, so this means that a Veteran can acquire a home for absolutely zero cash out-of-pocket, if the seller co-operates.

Keeping in mind that your first loan payment will not be made for at least a month after closing, Vets are in with a tremendous opportunity to buy instead of renting. Think about it - No security deposit or rent in advance, but zero down and no cash needed until at least 30 days after closing. This is the famous "Triple Zero Down" deal.

Conventional (FNMA or AHFC):- Fannie Mae, Alaska Housing and Freddie Mac (FHLMC) are classified as "Conventional" financing and, for owner/occupiers (that is, you buying a home to actually live in - even up to a 4-Plex with some rental income attached), you will need a minimum of 5% of the sales price in cash of your own, for the downpayment.

If you put down that 5%, an allowance of 3% of sales price is permitted for the seller to contribute to your closing costs, prepaids and reserves. Similar to FHA, this 3% will cover almost all your borrowing expenses if the seller agrees.

Some Conventional borrowers choose to put 20% down in order to avoid Mortgage Insurance. Should you be a 20% down kind of person, then up to 6% of the sales price may be contributed to borrowing expenses by the seller. This is, naturally, a slam-dunk to cover everything and there are leftovers that, if the seller agrees, could be put towards discount points to lower your interest rate, forward condo dues if applicable, or a few other creative items.

The Real Estate Market is a bazaar of people trading houses instead of fruit and vegetables. "Bargain and Barter" is the name of the game. If you are a Homebuyer, it never hurts to ask for concessions. The worst that can happen is - Seller says "No" - or, more likely, offers a compromise in the form of a Counter Offer.

HOMESELLERS: The Interest Rate environment for Home Buyers remains extremely attractive. FHA and VA still offering 30 year Fixed Rate at 3.25%, with Conventional at 3.5%. 15 year loans can be obtained for as low as 2.875%, as can a 5/1 Adjustable Rate (i.e. a 30 year loan but 2.875% for the first 5 years).

You may well ask what this has to do with you, the Home Seller?

First, these rates are still generating motivated Buyers to purchase your home. Media scares about an Alaska market crash are inaccurate. While the market is leaning in the buyer's favor right now it is not going to capsize! The market is healthy enough to maintain good prospects for Home Sellers.

Second, if you want to sell and upgrade, your borrowing costs for your next home are attractive enough to offset some pain on the selling side of your current property.

Homesellers should consider offering the incentive of paying closing costs to aid their sale without compromising their asking price.

Even when a market starts to favor buyers, sellers can obtain a reasonable result with the right strategy.

AN INTEREST RATE CLARIFICATION

The "FED", earlier this year, raised its target funds rate by 0.25% to 0.5%.

Recent expectations of a further rate hike, even before the "Brexit" decision, were softened considerably by comments from Janet Yellen. The "'dovish" comments (so called) are now exacerbated by the global economic threat (perceived) by Britain's decision to leave the 28 country European Union.

In short, expect no further rate hikes until, at least, next year.

What I wish to CLARIFY, however, is what those Fed rates are. While they have some indirect affect on Home Loan interest rates they are absolutely not the same thing. You will hear people saying "Rates are going up", but Home Loan interest rates are governed by the Bond Market, not the 'Fed'.

The 'Fed' Rate is the rate at which Banks may borrow money from the Federal Reserve out of funds required to be deposited there by Banks as a security buffer. In other words, Banks borrow money from each other at the 'target rate' proclaimed by the Fed, currently 0.25% to 0.5%.

Banks can obtain money, that is, at less than 1/2 percent at this time, and that is why they can lend to you, or corporations, and still make a profit so easily.

Home Loan rates are governed specifically by Bond yields, especially Federally issued Treasury Securities. These fluctuate, not directly as a result of Fed rates, but the ebb and flow of risk estimation by those, including Banks, investing in them. When the stock market is appealing and doing well, Bonds are worth less and this pushes up their actual 'Yield', and you will see Housing interest rates go up. Conversely, when business looks scary, and the Stock Market goes down, Bond Yields fall and so do Home Loan rates. This is why quoted housing rates change daily.

As a general rule, you may expect housing rates to remain under 4% well into 2017 - but don't think they automatically move because of what you hear on television about the 'Fed'.

Dave

Windsor