Real Estate Update

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- ☑ **Residential Purchases**
- ☑ **Residential Refinances**
- ☑ **Commercial Properties**
- ☑ **Home Equity Loans**

Can We Get A "Two-Fer"?

In the interest of seeing lower interest rates, we have had some hits and misses in the past few months. Two months ago, we had a moderate jobs report, but stronger than expected inflation numbers. Last month we had a strong jobs report but weaker than expected inflation numbers. Thus, we now are asking if it is possible for the economy to deliver a moderate gain in jobs and another positive inflation report – all in the same month.

The Fed meets at the end of the month, and they will be watching both of these factors carefully. After this month, they don't meet again until the end of September. Thus, we are running out of time in order for the Fed to lower rates before the year starts to come to a close. Having two good inflation reports together with two out of three moderate job reports could put a rate decrease at least on the table.

There is no doubt that the economy is slowing down. We have not seen signs of the recession which economists were predicting for last year. Most are calling this a soft landing. What we are trying to avoid is the term "stagflation."

Continued on Page 3

Did You Know…

High mortgage rates and double-digit growth in home prices since COVID-19 are forcing home buyers to compromise on lot size and square footage to afford a house, the National Association of Home Builders reported.

Nearly 4 buyers out of 10 would be willing to give up land in exchange for owning a home and more than a third will accept a smaller house if that's what it takes to buy it, according to NAHB's new What Home Buyers Really Want report.

Selected Interest Rates

June 20, 2024

30 Year Mortgages	*6.87%*
2023 High (Oct 19)	*7.79%*
2023 Low (Jan 26)	*6.09%*
15 Year Mortgages	*6.13%*
10 Year Treasuries	*4.27%*

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for

In This Issue

Home Equity Still Growing

As national home prices have continued to climb upward through the first half of 2024, U.S. homeowners with mortgages saw their home equity increase by 9.6% year over year in the first quarter, bringing total net homeowner equity to more than $17 trillion – near all-time highs – at the end of March.

According to the latest CoreLogic Homeowner Equity Report, homeowners with mortgages, which account for roughly 63% of all properties, collectively gained $1.5 trillion in equity since the first quarter of 2023, an average increase of $28,000 per borrower. These figures represent the greatest gains in equity since late 2022. "With home prices continuing to reach new highs, owners are also seeing their equity approach the historic peaks of 2023, close to a total of $305,000 per owner," said Dr. Selma Hepp, chief economist for CoreLogic. "Importantly, higher prices have also lifted some 190,000 homeowners out of negative equity, leaving only about 1.8% of those with mortgages underwater."

Rising home prices through 2023 and the first quarter of 2024 have helped the share of homes with negative equity to fall by 16.1% year over year, to 1.2 million homes or 2.1% of all mortgaged properties.

Source: CoreLogic

Mortgages and the...

You are self-employed and are looking to purchase a home or refinance your mortgage. You have heard horror stories regarding reams of paperwork and underwriters who wanted two pints of blood in order to approve a loan application. As a matter of fact, you have held off purchasing a home for years because you thought verifying your income may be difficult or impossible.

In this article, we will investigate one of the more complex areas of real estate finance. Hopefully we will help dispel some myths and make the process easier for everyone.

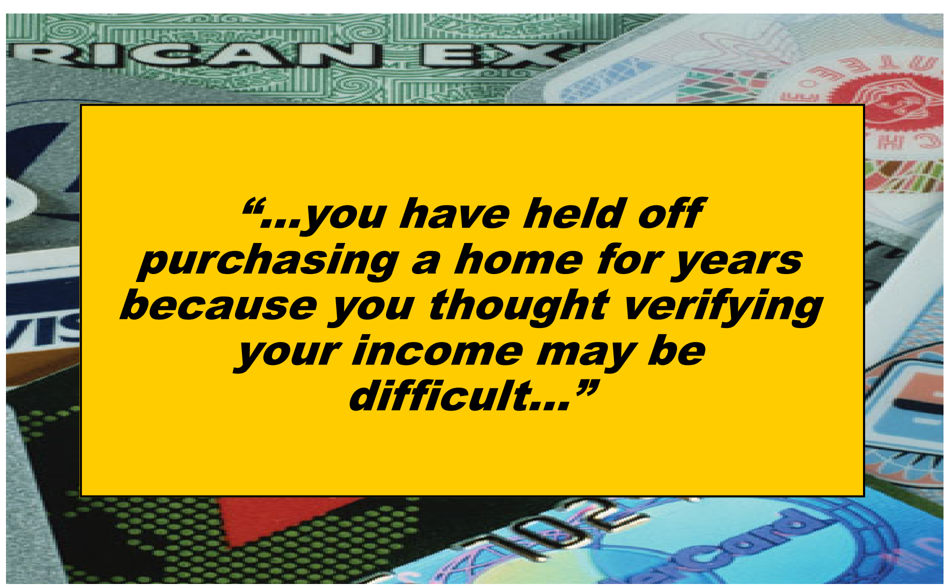
Who is self-employed (SE)? For underwriting purposes, someone is considered SE if they own 25% or more of the entity which provides their income. For example, if someone is a sole proprietor (such as a real estate agent)–they are SE. If someone owns at least 25% of a corporation (such as a restaurant) or partnership (such as a law firm), they are SE.

Why is self-employment important? SE is important from an underwriting standpoint because the income derived from SE varies (i.e. variable income). It also is more difficult to calculate than salaried income. This gives rise to two important underwriting concepts–

1. Two-year average. The income of a SE applicant is derived by taking a minimum two-year average. For example, if one has earned $50,000 in 2017 and $70,000 in 2018–the average annual income used by an underwriter would be $60,000. Many loan programs will not consider applicants who have been SE less than two years.

2. Net, not gross income. The income used to qualify an applicant is the net income derived from the business. If one owns a restaurant which grosses $2 million annually, this is not relevant because the net of the business may be $30,000 annually. Generally, salary derived from the business can be used (it is still averaged) as long as the salary is supported by the cash flow of the business. In the case of a sole-proprietorship, it is the "net" of the Schedule C which is important.

But what about all those "phantom" write-offs? If you are telling the IRS that it is a business expense, then it is a business expense–though some "non-cash" items such as depreciation may be added to the income.

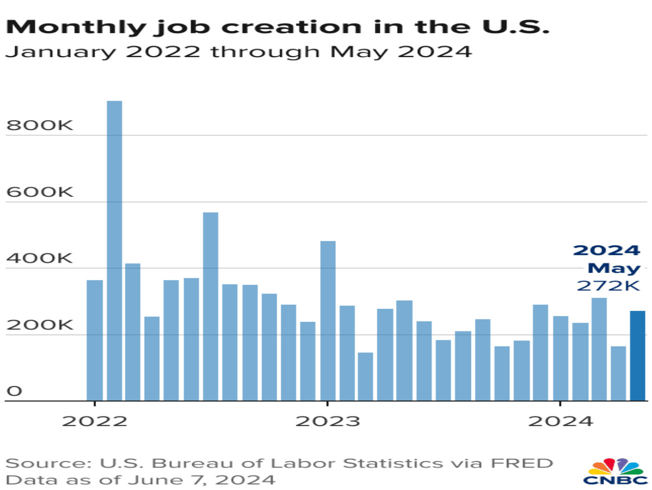


"...you have held off purchasing a home for years because you thought verifying your income may be difficult..."

…Self-Employed

What should I bring to application? In addition to the "normal" documents, bring two years complete and signed federal tax returns and a profit and loss current through the previous quarter, unless you are applying in the 1st quarter of the year, in which case the returns will suffice. If there is a corporation or partnership involved, bring these returns as well.

What about no-income programs? It is true that many who are SE have heard of programs that require no documentation of income. However, these programs are few and far between in the wake of the financial crisis and recession. More recently, programs have appeared which will base income upon regular deposits to your bank accounts, otherwise known as "bank-statement" loans. Bank statement loans usually do not require the submission of tax returns. These loans are likely to require a larger down payment, higher minimum credit score and/or higher rates and fees. You are also required by law to be accurate with regard to the question on the application which asks for your income, regardless of the documentation method…..



Can We Get A "Two-Fer"?

Continued from Page 1

During stagflation, the economy stagnates while inflation still rages.

Certainly, we don't feel that inflation is raging at this point, but it would be nice if inflation has cooled to the point that the Fed is comfortable loosening up a bit to avoid a further slowdown. We know that those looking to purchase homes would greatly appreciate mortgage rates easing a bit more. Come on month of July—let's do a "two-fer."...

"…we had a moderate jobs report, but stronger than expected inflation numbers…"

My goal is to provide expert advice and direction for my clients with an overall goal of providing a real estate finance transaction that exceeds their goals and expectations.

-- John Doe
Senior Loan Officer

Mortgage Rates To Fall?

Inflation cooling down to the Federal Reserve's target of two percent will spark a decline of borrowing costs, including for mortgages, the World Bank said recently. This development could help unlock a housing market in the U.S. that has been hit hard by expensive home loans and elevated prices. Since March 2022, the U.S. central bank has hiked interest rates at an aggressive pace not seen since the 1980s to a two-decade high of 5.25 to 5.5 percent current range.

This has pushed up the cost of borrowing for mortgages to its most expensive in 20 years. That policy move was geared to help slow down inflation, which still sits above the Fed's target of 2 percent. But economists at the World Bank expect that inflation will moderate over the next two years and by the end of 2026 interest rates will come down along with it, which experts say will buoy the housing market. "By the end of 2026, borrowing rates are expected to have declined substantially as inflation returns close to target," the global financial institution said in a report.

High interest rates in the U.S. have tightened financial conditions in the world's largest economy. But American consumers have powered through the restrictive environment helped by savings from the pandemic and contributed to economic growth that have defied expectations of a slowdown...

Source: Newsweek

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