Presented by Evan T. Swanson, CFP®

MAYBE THE PROBLEM ISN'T THE RATE

CREATIVE WAYS TO IMPROVE AFFORDABILITY WITHOUT WAITING FOR RATES TO FALL

WHO IS EVAN?

- Grew up in SE Portland in real estate family
- Graduated Cum Laude from Linfield University (Economics)
- Entered Mortgage Industry April 2002
- Obtain Certified Financial Planner™ designation in 2010.
- Funded over $1.1 billion in home loans
- Married with 2 teenagers.
- Lives in SW Portland
- Loves live music, travel, and golf!

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HOUSE AFFORDABILITY

A FUNCTION OF THREE KEY FACTORS

HOME PRICE × DOWN PAYMENT × MORTGAGE RATE = AFFORDABILITY

HOME PRICE

The total purchase price of the home

DOWN PAYMENT

The cash you put down up front

MORTGAGE RATE

The interest rate on your loan

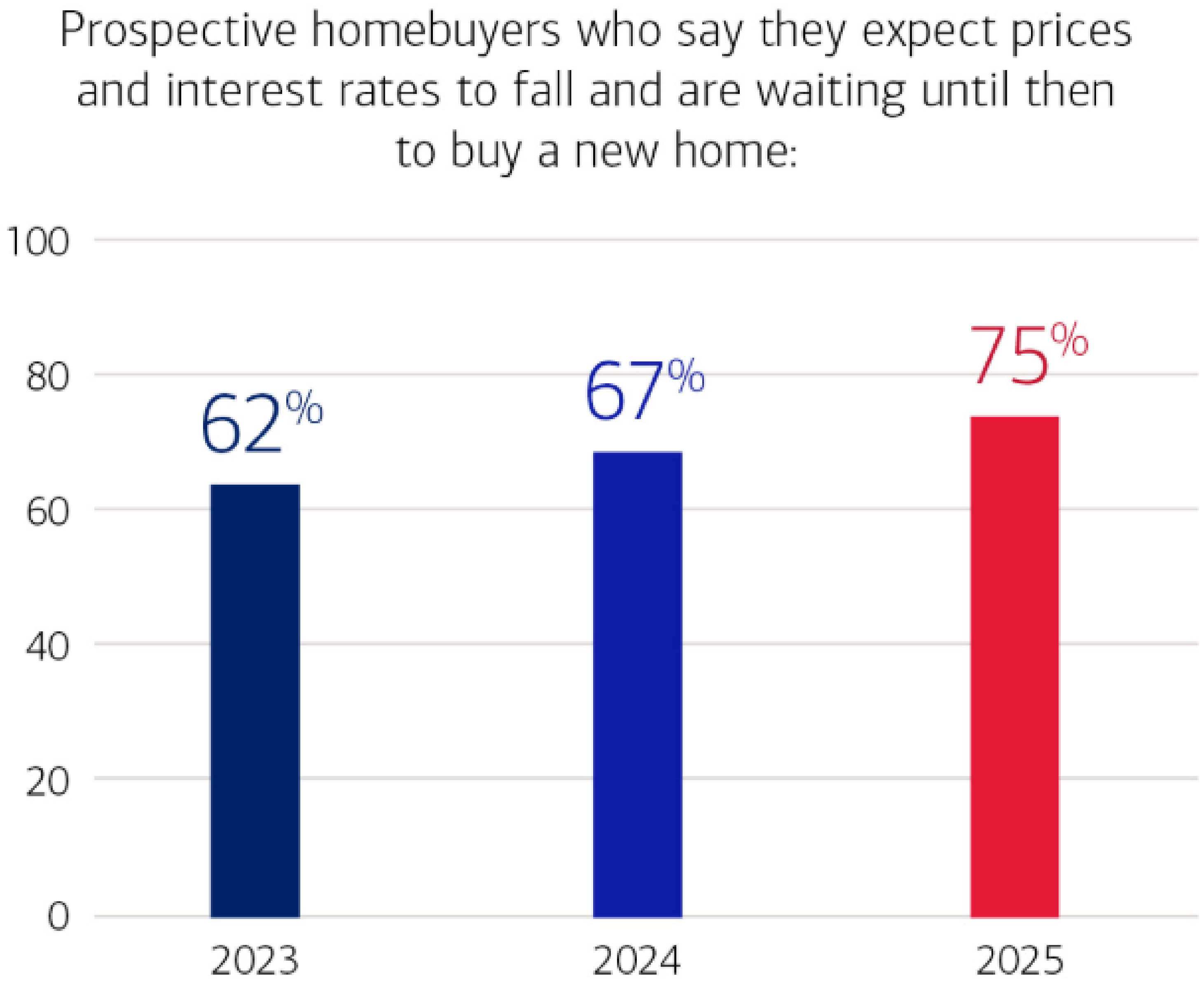
AFFORDABILITY

What you can comfortably afford

KEY TAKEAWAY: If you can't change all three, focus on the ones you can. Small changes in one factor can create a big impact on affordability.

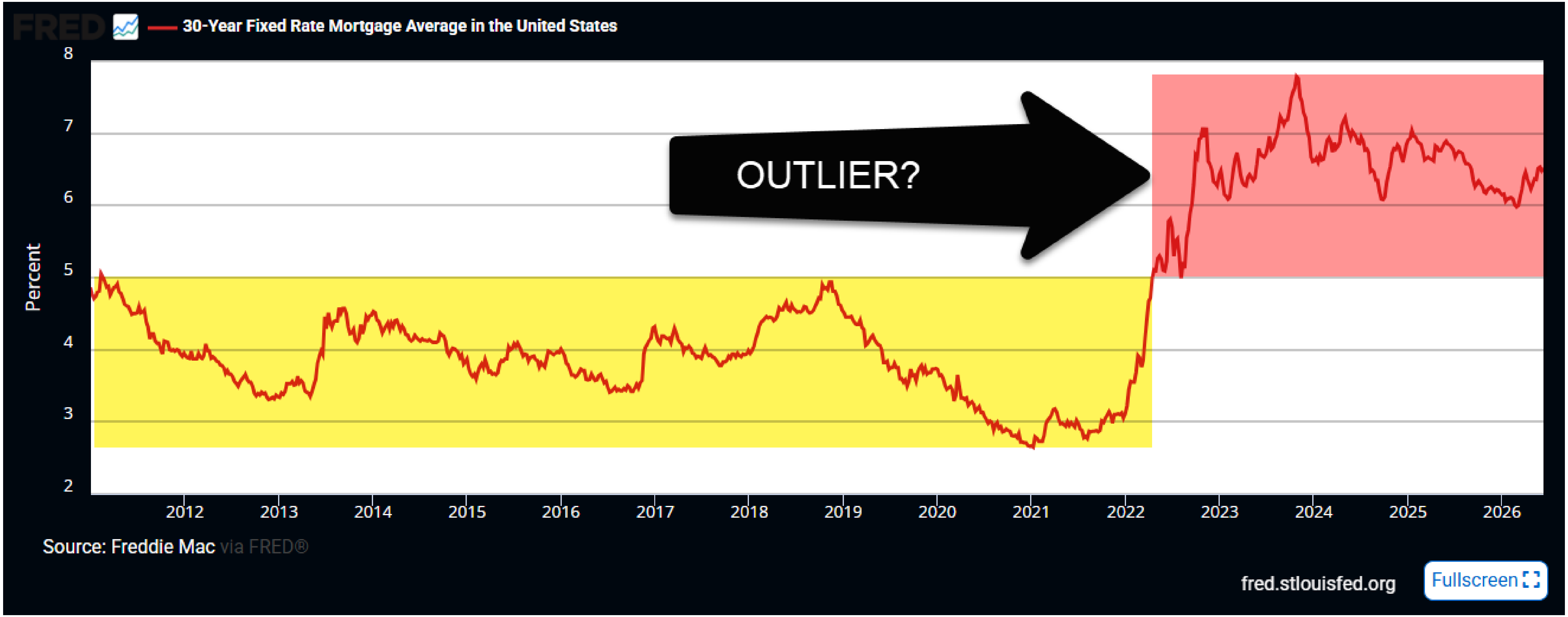
ARE MORTGAGE RATES HIGH?

MOST HOMEBUYERS THINK SO

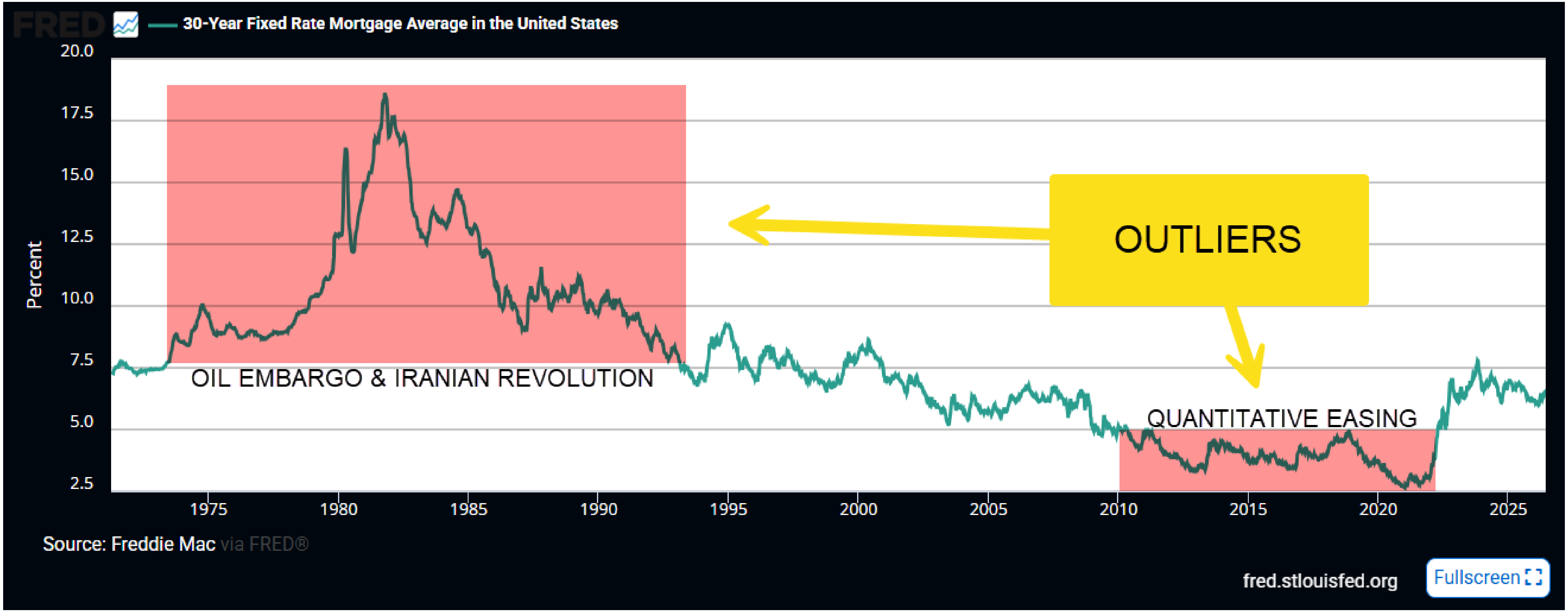


Source: Bank of America 2025 Homebuyer Insights Report

RECENCY BIAS

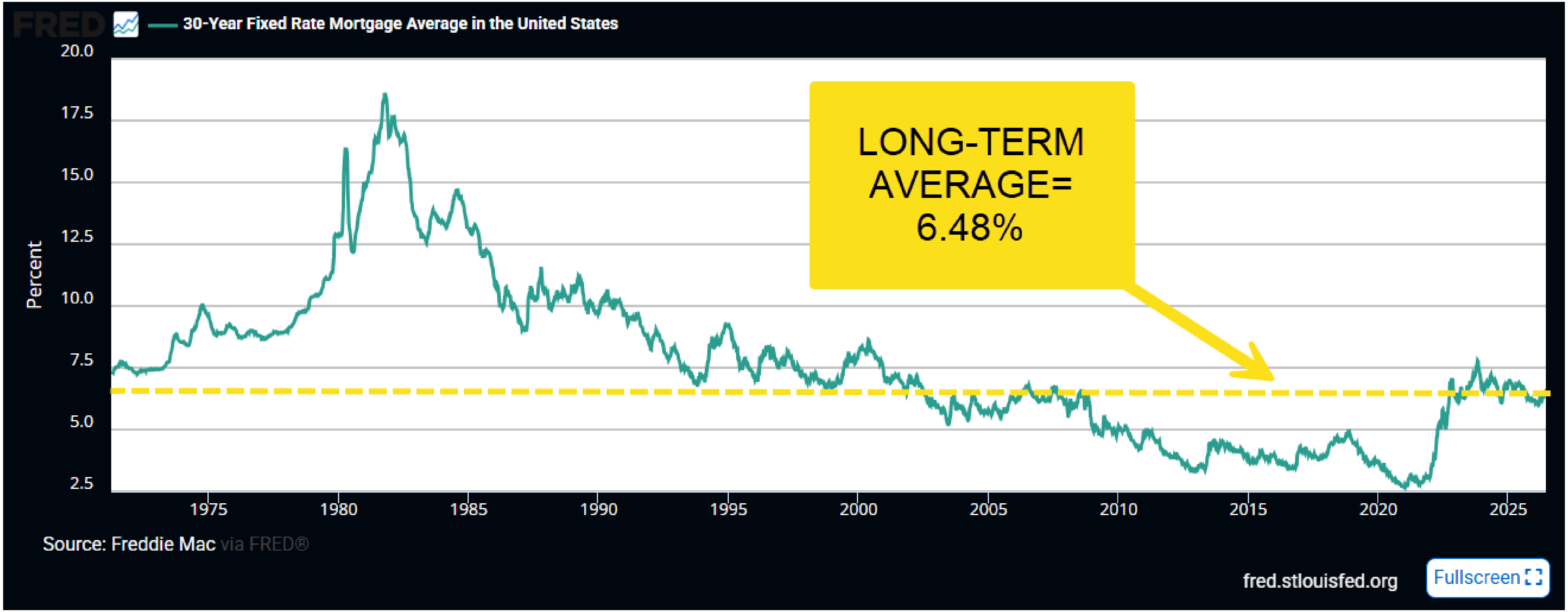


OUTLIERS

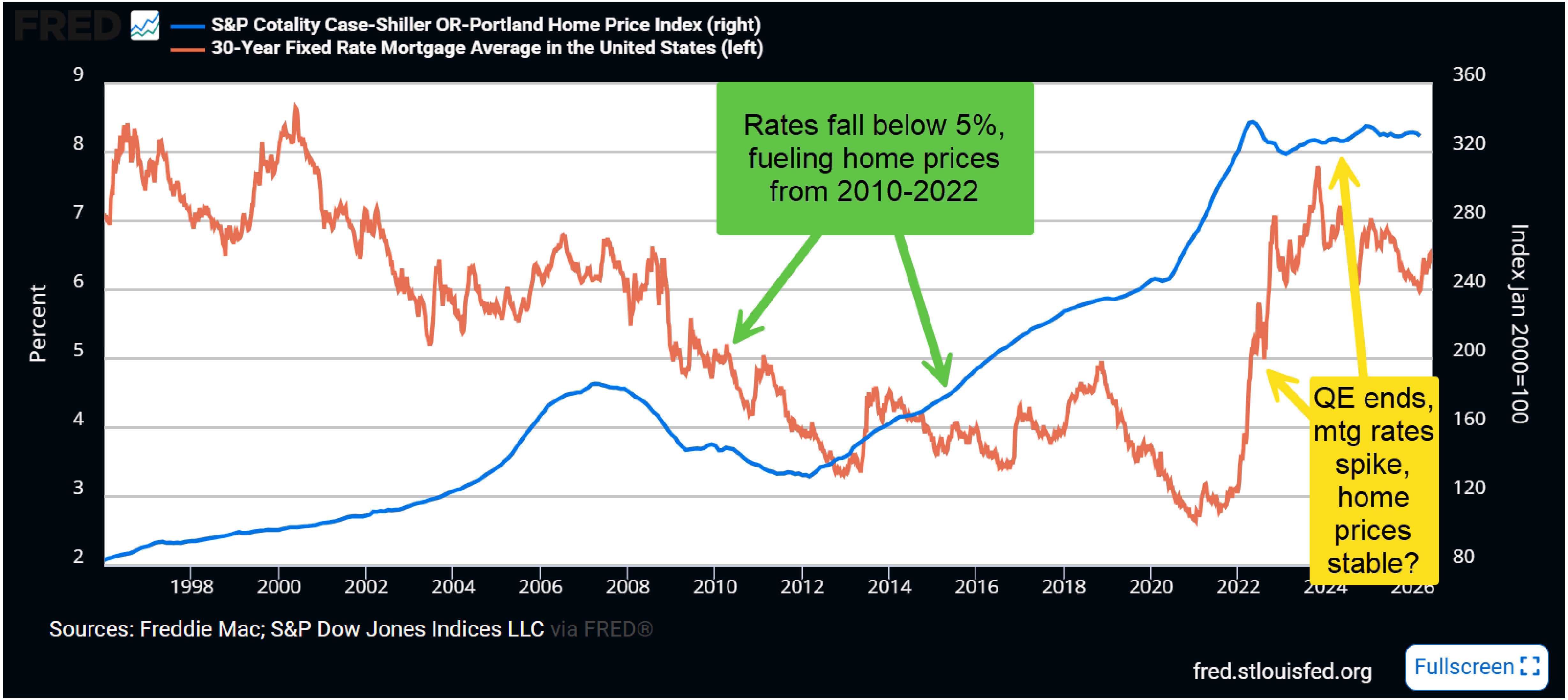


FRED
30-Year Fixed Rate Mortgage Average in the United States
20.0
17.5
15.0
12.5
10.0
7.5
5.0
2.5
Percent
OUTLIERS
OIL EMBARGO & IRANIAN REVOLUTION
QUANTITATIVE EASING
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020
2025
Source: Freddie Mac via FRED®
fred.stlouisfed.org
Fullscreen

MORTGAGE RATES ARE........AVERAGE!



MEANWHILE….HOME PRICES REMAIN ELEVATED



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WHY HAVEN'T HOME PRICES FALLEN?

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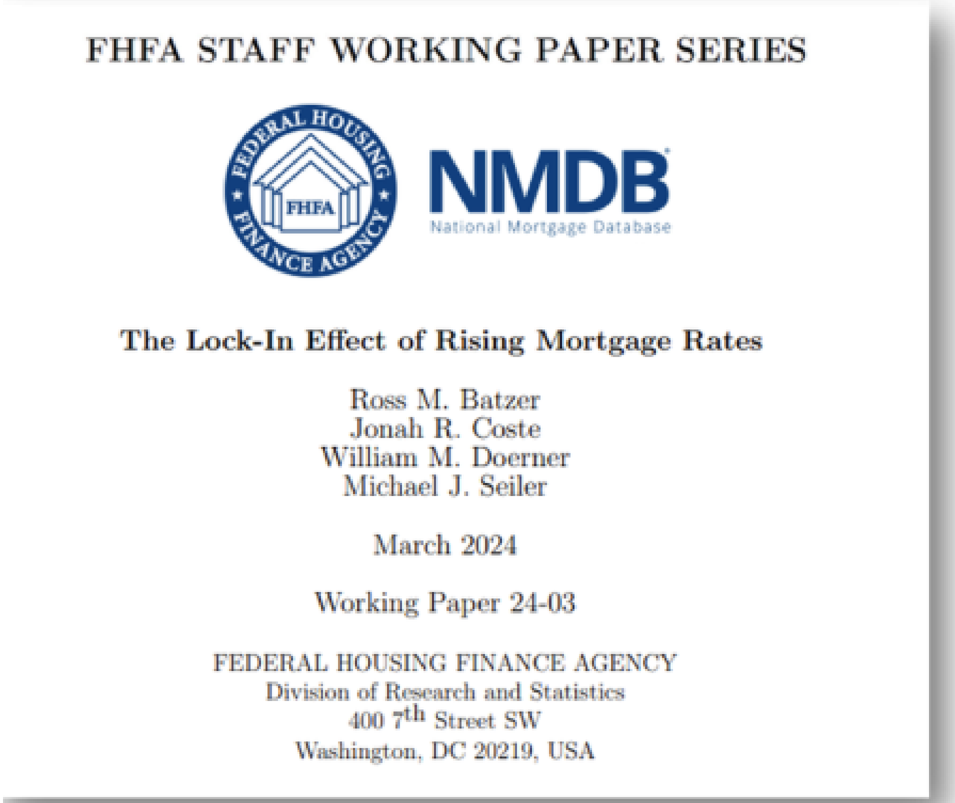
Higher Rates Impact on Supply


FHFA STAFF WORKING PAPER SERIES

The Lock-In Effect of Rising Mortgage Rates

Ross M. Batzer
Jonah R. Coste
William M. Doerner
Michael J. Seiler

March 2024

Working Paper 24-03

FEDERAL HOUSING FINANCE AGENCY
Division of Research and Statistics
400 7th Street SW
Washington, DC 20219, USA

"For every percentage point that current market mortgage rates exceed a homeowner's existing rate, the probability of selling their home decreases by approximately 18.1%"

Lock-in Effect Impact on Home Prices

Demand

-3.3%

Supply

+5.7%

Source: FHFA

THE 3% MORTGAGE IS GONE. NOW WHAT?
CREATIVE FINANCING STRATEGIES TO HELP BUYERS SUCCEED IN TODAY'S MARKET

Innovative approaches to navigate current affordability challenges

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SELLER CREDITS AND RATE-BASED STRATEGIES

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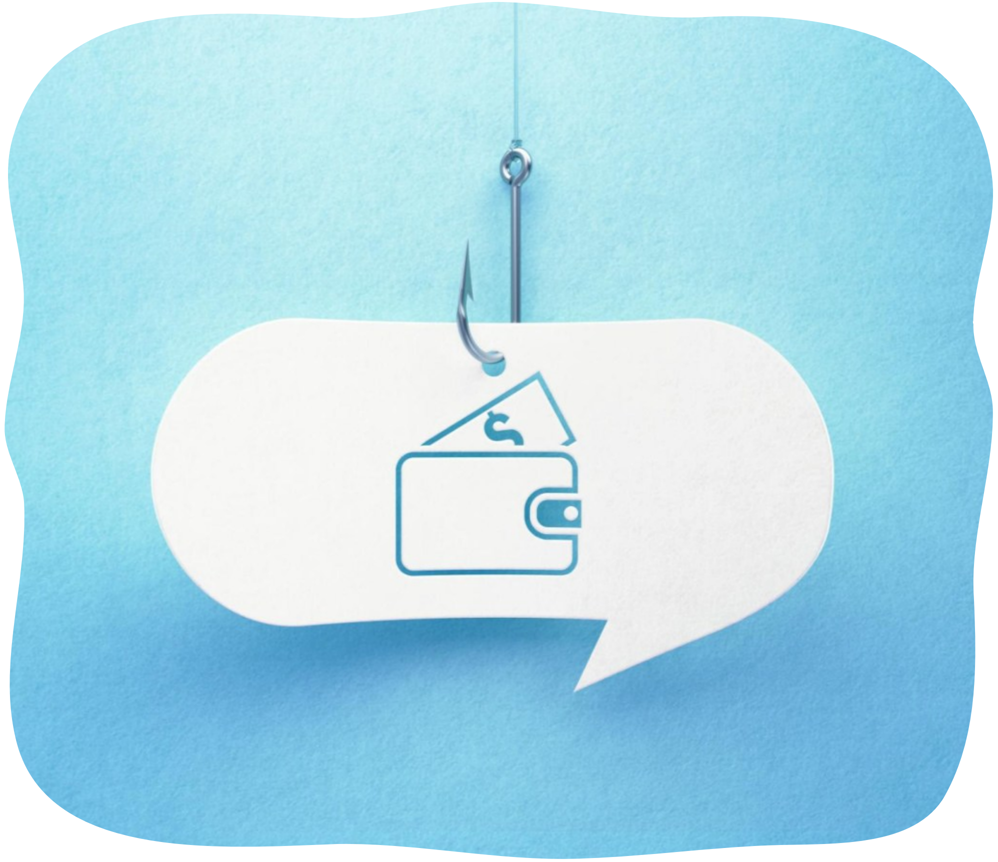
PRICE REDUCTION VS. SELLER CREDIT



Minimal Impact of Price Reduction

Price reductions slightly lower loan amounts but often have minimal effect on monthly payments, especially with high interest rates.

Benefits of Seller Credit

Seller credits directly reduce interest rates or closing costs, resulting in significantly larger monthly payment savings.

Leverage in Negotiation

Rate reductions amplify savings over time, whereas price reductions dilute the financial benefit, highlighting negotiation leverage.

Mindset Shift for Buyers

Successful negotiation focuses on structuring efficient transactions, not just securing the lowest price.

REAL EXAMPLE
PRICE REDUCTION VS. PERMANENT BUYDOWN

Buyer: Tara

First-time homebuyer

Budget: $500,000 range

Down Payment: 10%

Affordability is primary concern

EXAMPLE: $525,000 LIST PRICE W/ 10% DOWN

$525,000 PURCHASE PRICE

- **Purchase Price: $525,000**
- **Down Payment (10%): $52,500**
- **Loan Amount: $472,500**
- **30yr Fixed Rate: 6.5% (APR: 6.71%)**
- **Discount Points: 0%**
- **PITI: $3,615**
- **Total Cash Investment: $64,100**

$11,000 PRICE REDUCTION

- **Purchase Price: ~~$525,000~~ $514,000**
- **Down Payment (10%): $51,400**
- **Loan Amount: $462,600**
- **30yr Fixed Rate: 6.5% (APR: 6.71%)**
- **Discount Points: 0%**
- **PITI: $3,551 ($64/ mo savings)**
- **Total Cash Investment: $63,000**
- **Interest Savings:**
  - **5 years: $3,122**
  - **10 years: $6,002**

EXAMPLE: $525,000 LIST PRICE W/ 10% DOWN

$525,000 PURCHASE PRICE

- **Purchase Price: $525,000**
- **Down Payment (10%): $52,500**
- **Loan Amount: $472,500**
- **30yr Fixed Rate: 6.5% (APR: 6.71%)**
- **Discount Points: 0%**
- **PITI: $3,615**
- **Total Cash Investment: $64,100**

$11,000 SELLER CREDIT

- **Purchase Price: $525,000**
- **Negotiated Seller Credit: $11,000**
- **Down Payment (10%): $52,500**
- **Loan Amount: $472,500**
- **30yr Fixed Rate: 5.99% (APR: 6.28%)**
- **Discount Points: 2% (paid via seller credit)**
- **PITI: $3,459 ($156/ mo savings)**
- **Total Cash Investment: $62,500**
- **Interest Savings:**
  - **5 years: $12,085**
  - **10 years: $24,060**

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TEMPORARY BUYDOWNS

Temporary buydowns reduce interest rates for initial years, providing short-term payment relief to homeowners.

Ideal Candidates

Buyers expecting income growth or future refinancing benefit most from temporary buydown programs.

Benefits and Risks

Temporary buydowns ease initial payments but increase after the buydown period, requiring careful planning.

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EXAMPLE: $525,000 LIST PRICE W/ 10% DOWN

PERMANENT BUYDOWN

- Purchase Price: $525,000
- Negotiated Seller Credit: $11,000
- Down Payment (10%): $52,500
- Loan Amount: $472,500
- 30yr Fixed Rate: 5.99% (APR: 6.28%)
- Discount Points: 2% (paid via seller credit)
- PITI: $3,459
- Total Cash Investment: $62,500

2-1 BUYDOWN

- Purchase Price: $525,000
- Negotiated Seller Credit: $11,000
- Down Payment (10%): $52,500
- Loan Amount: $472,500
- 30yr Fixed Rate:
  - Year 1: 4.5% | PITI: $3,023
  - Year 2: 5.5% | PITI: $3,312
  - Years 3-30: 6.5% | PITI: $3,615
- Total Cash Investment: $62,500
- Interest Savings:
  - 5 years: $2,922
  - 10 years: ($7,425) additional cost

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NEGOTIATION STRATEGY SHIFT

STOP BUYERS FROM AUTOMATICALLY ASKING FOR PRICE REDUCTIONS

Evolving Negotiation Approach

Realtors can help buyers move beyond automatic price reduction requests to more strategic negotiation techniques.

Focus on Financing Mechanics

Understanding financing and structuring concessions like seller credits leads to better negotiation outcomes.

Creating Win-Win Outcomes

Negotiations focusing on payment terms help sellers preserve value, and buyers achieve affordability.

REPOSITIONING CAPITAL FOR AFFORDABILITY

WHY BIGGER DOWN PAYMENTS AREN'T ALWAYS BETTER

Down Payment vs Loan Balance

Higher down payments reduce the loan balance but do not always improve monthly affordability or cash flow.

Strategic Capital Allocation

Combining a smaller down payment with a rate buydown can optimize financial outcomes better than just increasing the down payment.

Opportunity Cost Importance

Every dollar used for a down payment is a dollar not used to reduce interest rates, eliminate debt, or maintain liquidity.

REAL EXAMPLE: USING CAPITAL STRATEGICALLY

Client: Tim

Selling Current Home & Purchasing a New Home

Budget: $900,000 range

Estimated Net Proceeds: $300,000

Would like to keep total payments under $5,500/ mo

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EXAMPLE: $899K PURCHASE

$300K DOWN PAYMENT

- **Purchase Price: $899,000**
- **Down Payment: $300,000**
- **Loan Amount: $599,000**
- **30yr Fixed Rate: 6.5% (APR: 6.68%)**
- **PITI: $4,883**
- **Other Loans:**
  - **Auto Loan ($28k): $715/ mo**
  - **Credit Cards ($21k): $645/ mo**
- **Total Monthly Obligations: $6,243**

$250K DOWN PAYMENT + PAY-OFF DEBT

- **Purchase Price: $899,000**
- **Down Payment: $250,000**
- **Loan Amount: $649,000**
- **30yr Fixed Rate: 6.5% (APR: 6.68%)**
- **PITI: $5,199 (+$366/ mo)**
- **Other Loans: (PAID OFF)**
  - ~~**Auto Loan ($28k): $715/ mo**~~
  - ~~**Credit Cards ($21k): $645/ mo**~~
- **Total Monthly Obligations: $5,199**

($1,044/ mo savings)

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DEBT ELIMINATION AS AN AFFORDABILITY TOOL

Impact of Debt Elimination

Removing consumer debt enhances purchasing power more effectively than increasing down payment amounts.

Debt-to-Income Ratio Importance

Lowering monthly debt obligations improves qualification chances more than cash availability for buyers.

Real-World Application

Examples like car loans, student loans, and credit card payoffs demonstrate practical affordability improvements.

REAL EXAMPLE: 20% DOWN NOT ALWAYS THE ANSWER

Client: Melissa

First-time homebuyer

Budget: $300,000 range

Savings: <u>Barely</u> enough to put 20% down

Thought that putting 20% down was the best way to achieve a lower monthly payment. But 20% down would leave her without a financial reserve.

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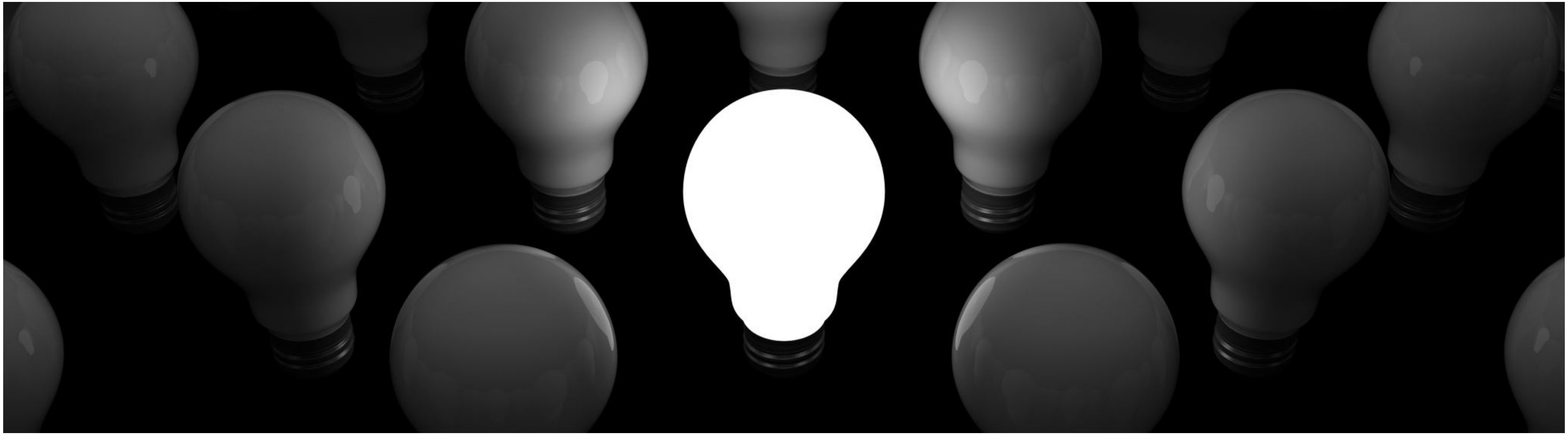
EXAMPLE: $360K PURCHASE

20% DOWN PAYMENT

- **Purchase Price: $359,999**
- **Down Payment (20%): $71,999**
- **Loan Amount: $287,999**
- **30yr Fixed Rate: 6.25% (APR: 6.40%)**
- **PITI: $2,504**
- **Total Cash Due at Closing: $84,800**

15% DOWN PAYMENT WITH RATE BUYDOWN

- **Purchase Price: $359,999**
- **Down Payment (15%): $53,985**
- **Loan Amount: $305,915**
- **30yr Fixed Rate: 5.5% (APR: 5.88%)**
- **Discount Points: 2.75% (no seller credit)**
- **PITI: $2,493 (includes PMI)**
- **Total Cash Due at Closing: $75,200 ($9,600 saved!)**



THE HIDDEN OPPORTUNITY MOST BUYERS MISS

THE LOCK-IN EFFECT CREATES OPPORTUNITY

Reframing Lock-In Effect

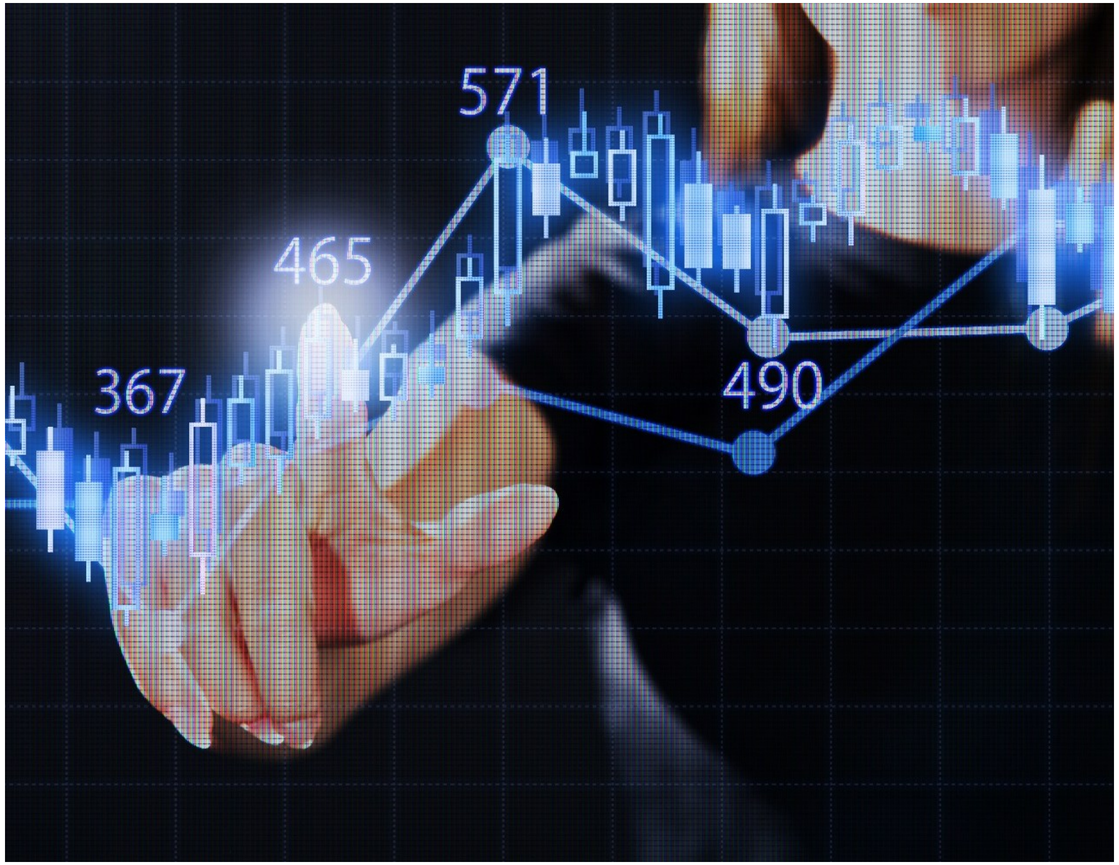
Viewing the lock-in effect as a strategic opportunity unlocks hidden financial value in existing mortgage loans.

Low-Rate Lows Still Exists

Millions of homeowners have mortgages with rates much lower than current market rates, creating untapped value.

Loan Assumption Potential

Considering the possibility for buyers to assume existing loans instead of replacing them can change market dynamics.



REAL EXAMPLE: LOAN ASSUMPTION

Client: Nick

Purchasing a primary residence

Budget: $900,000 taste with a $700,000 budget

Down Payment: 5%-10%

Nick was struggling to find a home big enough to accommodate this family on his monthly payment budget. He wanted to keep his payments close to $5,000/ mo.

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EXAMPLE: $875K PURCHASE

$875K PURCHASE W/ 5% DOWN

- **Purchase Price: $875,000**
- **Down Payment: (5%) $43,750**
- **Loan Amount: $831,250**
- **30yr Fixed Rate: 6.5% (APR: 6.79%)**
- **PITI: $6,163 (too high)**

$875K PURCHASE W/ ASSUMABLE LOAN

- **Purchase Price: $875,000**
- **Down Payment: (5%) $43,750**
- **Assumable Loan: $633,000**
- **30yr Fixed Rate: 2.25% | PITI: $3,462**
- **Newly Originated HELOC: $201,000**
- **Interest Rate: 10.125% | P&I: $1,782**
- **Combined PITI: $5,244 ($919/ mo savings)**

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TIPS FOR FINDING ASSUMABLE MORTGAGES:

- Does home have FHA, VA, or USDA mortgage?
- Look for homes purchase (or refinanced) during 2020-2022
- Buyer can likely expand budget with assumable mortgage
- What is the equity gap? (Sale Price – Assumable Loan Balance)
- Be Prepared for longer closing timeline (45-90 days)
- Appraisal: Be aware appraiser cannot positively assign additional value based on assumable loan.

AFFORDABILITY FOR OLDER BUYERS

SENIORS FACE UNIQUE CHALLENGES

- Americans are living longer than previous generations.
- Healthcare costs and other living expenses are rising.
- Many retirees worry about outliving their savings.
- Social Security primary source of retirement income for most retirees.
- Americans age 62+ control $14-$17 trillion in housing equity.
- Essentially, seniors are "house rich, cash poor."

Sources: Kiplinger, Investopedia, AARP, and HousingWire

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REAL EXAMPLE:
HELPING SENIORS IN RETIREMENT

Buyer: Sue

70 years old | Retired | Selling existing home

Net Proceeds from Sale: $325,000

Cash Purchase Budget: $300,000

Retirement Budget does not allow for mortgage or HOA payment.

No suitable homes available without expensive HOA dues.

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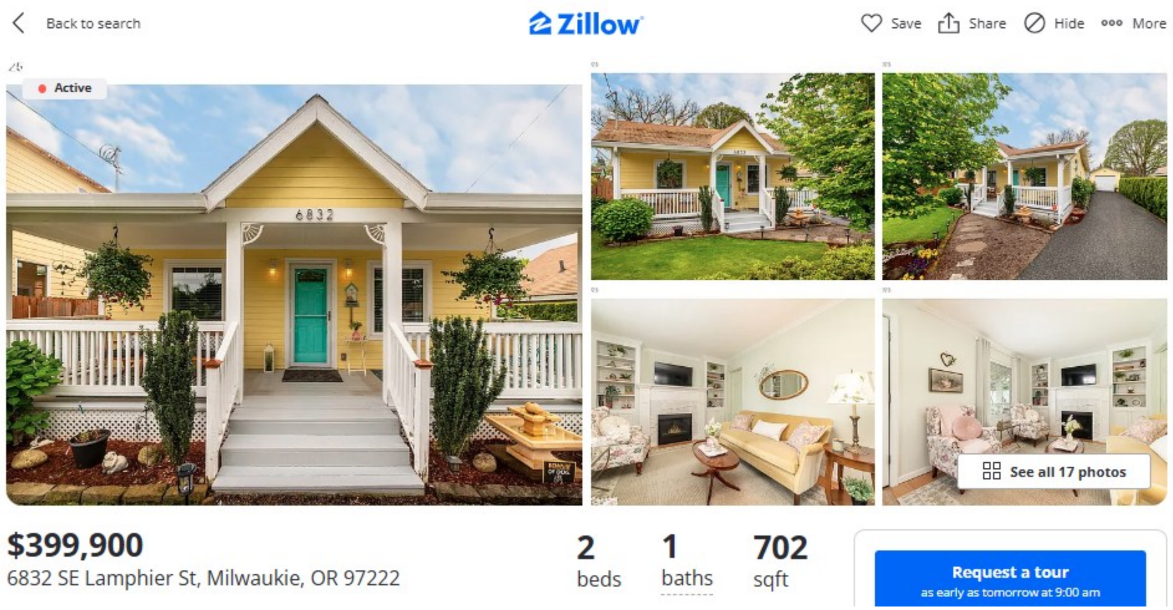
EXAMPLE: REVERSE TO PURCHASE SOLUTION

$400K PURCHASE

- **Purchase Price: $400,000**
- **Loan Amount: $131,000**
- **HECM APR: 6.89%**
- **Monthly P&I: $0**

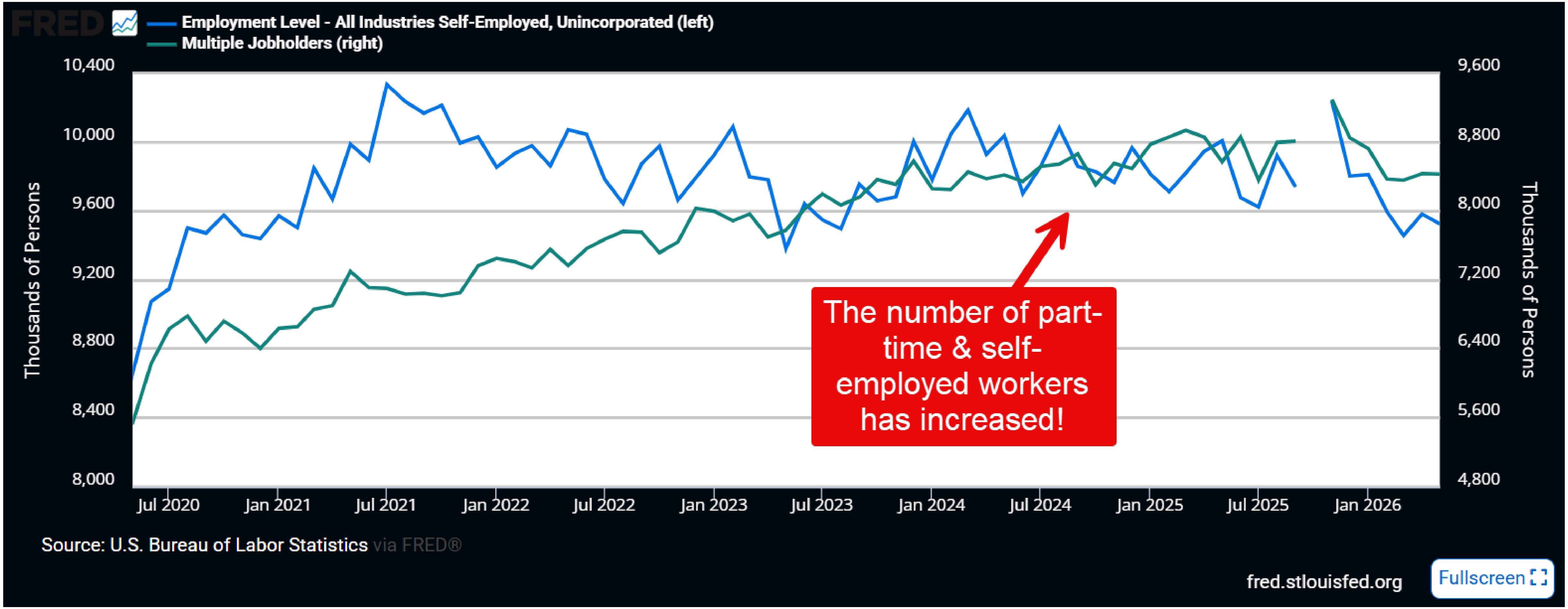
(interest accrues under reverse mortgage)

- **Total Cash Investment: $284,000**
- **Financial Reserves: $41,000**

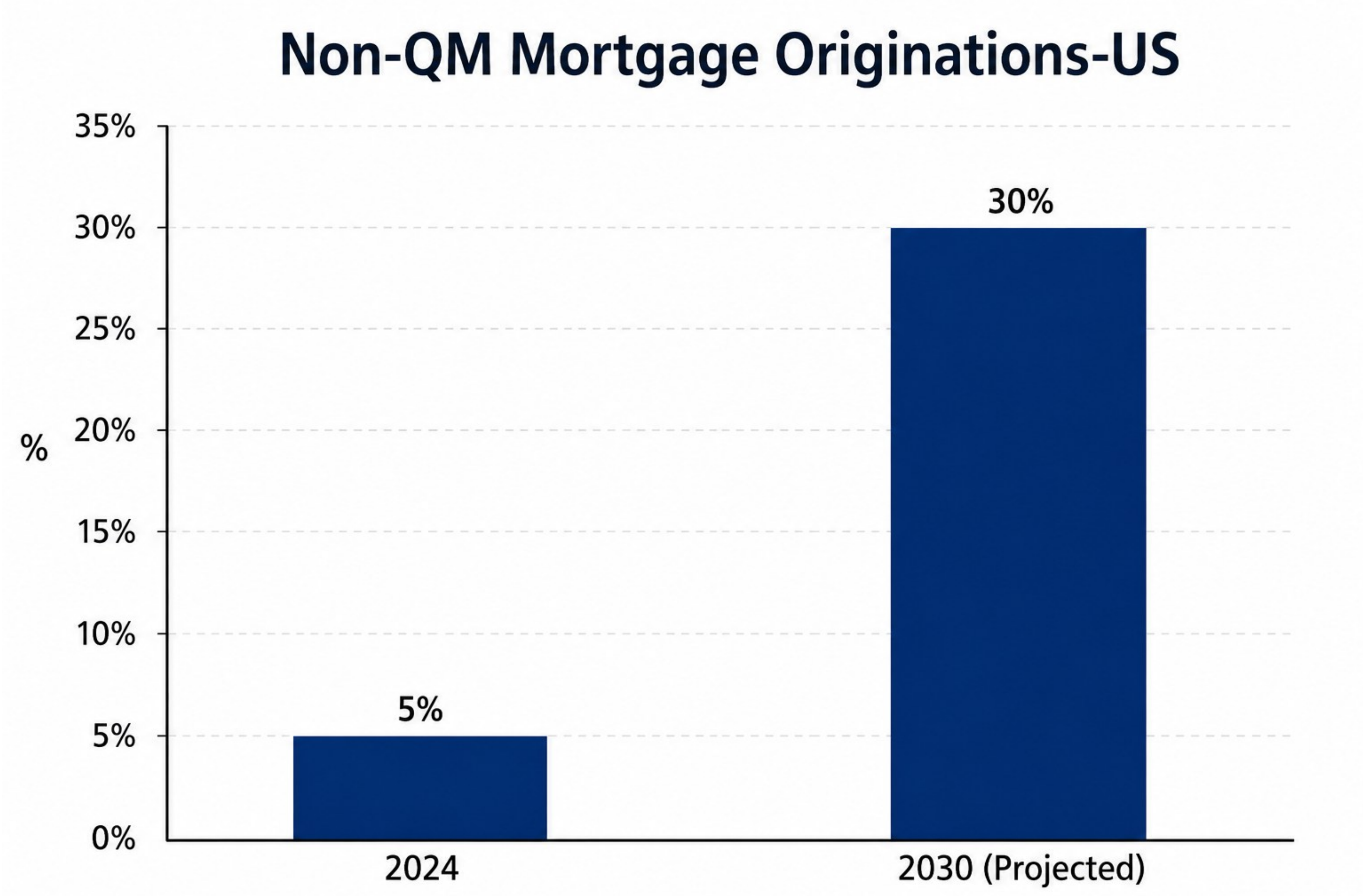


EXPANDING THE BORROWER BOX

THE WORKFORCE HAS CHANGED



THE OUTLOOK



Source: Scotsman Guide

REAL EXAMPLE: SELF-EMPLOYED

Buyer: Mike

Homebuyer | Started business in past 3 years

Purchase Budget: $750,000-$900,000

Credit & Cash-Flow are strong, but traditional measurement of self-employment income was weak.

BANK STATEMENT LOANS

- Income based on 12-24 months bank statements
- Business or Personal Bank statements are acceptable
- Borrower must be at least 25% business owner
- Business in existence for minimum 2 yrs

EXAMPLE: BANK STATEMENT CASH FLOW ANALYSIS

TRADITIONAL FINANCING

- **Max Purchase Price: $550,000**
- **Down Payment: (25%) $137,500**
- **Loan Amount: $412,500**
- **30yr Fixed Rate: 5.99% (APR: 6.24%)**

BANK STATEMENT LOAN

- **Purchase Price: $840,000**
- **Down Payment: (20%) $168,000**
- **Loan Amount: $672,000**
- **30yr Fixed Rate: 6.625% (APR: 6.702%)**
- **PITI: $5,125**

REAL EXAMPLE: NEWLY SELF-EMPLOYED

Buyer: Nate

Homebuyer | 42 years old | Tech Startup founder | Business has no revenue and therefore has no qualifying income under traditional underwriting

Purchase Budget: $900,000-$1,000,000

Strong Credit, can put up to 40% down, and has significant investment portfolio

ASSET UTILIZATION

- No age restriction
- Income imputed based on sum of liquid assets less funds needed for home purchase
- Monthly Income= Net Qualified Assets/ 84 months
- Income may be combined with other standard forms of income (i.e. W2, rental, 1099)

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EXAMPLE: ASSET UTILIZATION

TRADITIONAL FINANCING

- **No qualifying income=no pre-approval**

ASSET UTILIZATION LOAN

- **Imputed Income Generated: $11,000/ mo on $924,000 in qualified assets**
- **Purchase Price: $950,000**
- **Down Payment: (25%) $236,250**
- **Loan Amount: $708,750**
- **30yr Fixed Rate: 6.25% (APR: 6.64%)**
- **Seller Credit: $23,000 to fund discount points for rate buydown**
- **PITI: $5,204**

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DSCR LOAN PROGRAM

- Rental Property purchases only (cannot be used for primary residence)
- Available to seasoned and first-time investors
- Qualifying solely based on ratio of projected gross rental to income to PITI
- Gross Rents > 1.0 PITI will qualify for best loan terms
- Gross rents=.75-.99 PITI available for rates & costs are higher
- Investor may close in name of LLC

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1099 INCOME

Applicant with same 1099 provider for past 2 years

Can qualify based on 1099 – 10% for personal 1099 or -15% for business 1099

Must confirm tax returns are filed but expenses from tax return not included in qualifying

THE RIGHT LOAN FOR THE RIGHT BORROWER

Many buyers don't fail because they lack income. They fail because they are measured using the wrong yardstick.

IN CLOSING

The Buyer Who Wins Isn't Always the Buyer With the Most Money.

Success depends more on a well-planned strategy than on simply having the most money.

QUESTIONS?

LET'S KEEP THE CONVERSATION GOING.

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