Interest Rates and Buying Power

After three Fed interest rate cuts in 2019, and a cut in March 2020, lower borrowing costs mean buyers can afford to buy more house.

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Lower mortgage rates, combined with borrowers spending less on other monthly debt obligations, increases buying power. When it comes to affording a mortgage, it's a great time to buy a home. It's still important, however, to borrow responsibly.

HOW IT WORKS

According to Opendoor.com, a 1% decrease in mortgage rates means you could pay nearly 10% less per month. Here's how. On a $250,000 house, your mortgage payment at 4% interest would be $1,431. At 3% interest, the payment would be $1,297. That's a savings of $134, or 9.4%. That monthly savings means you can put more into savings — or afford a more expensive house for the same payment.

There is, however, a shortage of homes for sale in many markets, leaving buyers with fewer options. "2020 will prove to be the most challenging year for buyers, not because of what they can afford but rather what they can't find," Opendoor reports.

CALCULATE YOUR BUYING POWER

To determine how much lower mortgage rates can affect your own buying power, try NerdWallet.com's affordability calculator at https://bit.ly/32RfuMT. Enter your monthly income, other debt obligations, down payment amount and an interest rate. The calculator will tell you what purchase price you can afford, and takes into account private mortgage insurance (if needed), property taxes and homeowner's insurance.

The Consumer Financial Protection Bureau warns borrowers that mortgage calculators are only as good as the information they put into the calculator. The Bureau urges consumers to be realistic about the information they provide, as it can have big implications for affordability. A calculator should allow users to customize elements such as property taxes, insurance and private mortgage insurance. Users should do research about what to expect from those expenses in their local market in order to get reliable affordability data from a calculator.

AFFORDABLE VS. SMART

Being approved for a mortgage doesn't mean you can afford the mortgage. It's important to still consider your own spending habits and be sure you are comfortable that you can meet all your financial obligations when taking on a mortgage.

In its "Home Loan Toolkit," the CFPB offers the following reminder: "In most cases, your lender can consider only if you are able to repay your mortgage, not whether you will be comfortable repaying your loan." The CFPB urges buyers to look at their whole financial picture and ask themselves if they want to take on a mortgage payment along with the other expenses they will incur as a homeowner, such as appliances, repairs and maintenance.

A lower mortgage payment gives you more flexibility to tackle other financial goals, such as saving for your children's college or saving for retirement and could allow you to weather financial challenges more easily.

HOMEWISE

Real Estate Tips and Advice

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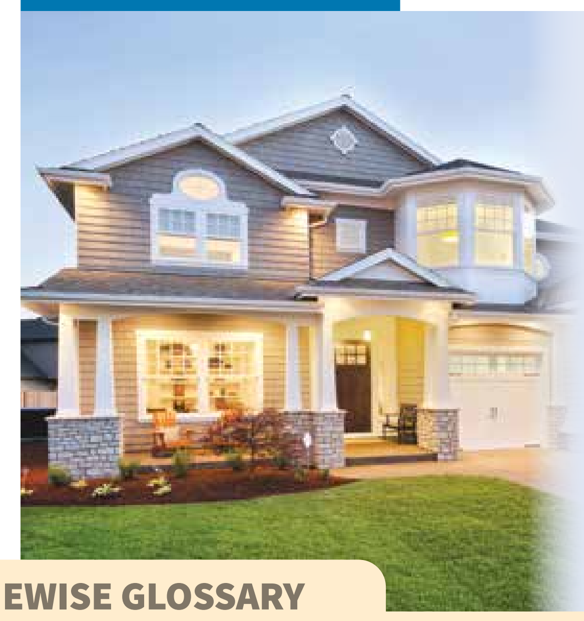
REAL ESTATE 101



Interest Rate Lock

What does it meant to "lock" your interest rate? According to the CFPB, "a lock-in or rate lock on a mortgage loan means that your interest rate won't change between the offer and closing, as long as you close within the specified time frame and there are no changes to your application." The lock period is typically 30 to 60 days. Factors that can cause a change to your rate include changes to your credit score, changing the type of loan you want, a home appraisal that comes in high or low, or the lender having difficulty verifying any of your income.

HOMEWISE GLOSSARY

Lifetime adjustment cap: typically used with adjustable rate mortgages, this cap determines how much the interest rate can increase in total, over the life of the loan.

SOURCE: Consumer Financial Protection Bureau