Published Feb. 17, 2022, in the Denver Post's YourHub section

The Hidden (But Very High) Cost of Waiting to Buy Your Home

Let's Talk Home Financing

By Jim Smith Realtor®

It seems almost impossible to open a newspaper or listen to a news broadcast without being reminded that mortgage loan rates are on the rise. I asked **Jaxzann Riggs**, owner of **The Mortgage Network,** for her thoughts on how rising rates will affect our market. Here's what she said.

Borrowers are being impacted on two levels right now. In the Denver metro area, the median price for a single-family home has increased by 19.3% in the past 12 months, according to the Denver Post. The home that you could have bought for $502,775 in January 2021, is likely to cost $599,900 now.

Let's assume that you agreed to purchase that home in January 2021 for $502,775. At that time, interest rates were hovering around 2.75%. If you made a 20% down payment, your expected monthly principal and interest payment would be approximately $1,642. If, on the other hand, you waited until January 2022 to buy that same home, your purchase price would be $599,810 and your interest rate would have risen to 4.087% and you would be paying $2,315 per month in principal and interest. That's an increase of $673 per month.

Underwriters qualify borrowers for a maximum monthly payment based upon their income and other monthly liabilities. Underwriters refer to this as the borrower's "debt to income" ratio, or DTI ratio, a term that you may have heard before. The maximum allowable monthly payment is then translated to a loan amount based upon current interest rates.

Rising rates make the maximum loan amount that a borrower can afford a moving target. By most accounts, The Federal Reserve is likely to increase the federal funds discount rates 3 to 5 times this year, with an increase certain to occur on March 16th. There is no direct correlation between the fed funds discount rate and long-term mortgage rates, but the trend for both is up. Jaxzann believes that the March 16th increase has already been factored into the cost of 30-year mortgage money by Fannie Mae and Freddie Mac, but expects rates as high as 4.75% by the year's end. The mortgage market is resilient, changing daily and we are beginning to see a variety of loan products (for example, adjustable-rate mortgages and interest-only loans) being offered by conventional lenders that will offset some of the damage done by increasing rates.

While prospective purchasers can't control real estate prices or mortgage rates, they do have some small measure of control when it comes to the price they pay for a loan while they are actively shopping for a home. Many of our lending partners have begun to offer a feature that allows the borrower to obtain a preliminary loan approval (without finding a property) and to "lock in" an interest rate, while shopping for a new home. Some lenders will lock in an interest rate for up to 120 days while their clients shop, but the most common "lock and shop" term is 90 days. The lender charges a small premium to hold the consumers' rate for a set timeframe and typically will also offer the borrower the ability to "roll down" the rate if the market improves by a preset amount during the lock period. Borrowers wishing to execute the roll down feature will pay a small fee, but it ensures that they will still be able to qualify for a specific loan amount, when they finally go under contract.

What does this mean for future homeowners? **The cost of waiting is just too high**. Don't allow rising home prices and mortgage rates to price you out of the market. If you are currently house hunting and would like to learn more about locking in an interest rate, call Jaxzann at **(303) 990-2992**.