How To Become a Homeowner

Everything you need to know about buying a home in today’s housing market

Outlook of The Market

In the last few years, inventory shortages, price hikes, and most of all, an overwhelming sense of uncertainty, have rocked the US housing market to degrees that have never been seen before.

Home buying, especially first-time home buying, is one of the most daunting challenges a person can face. Even under normal circumstances, buying a home is one of, if not the, most important financial decision a person will make in their lifetime. In the last few years, however, inventory shortages, price hikes, and most of all, an overwhelming sense of uncertainty, have rocked the US housing market to degrees that have never been seen before. Though far from completely over, the most devastating effects of the Covid-19 pandemic on supply chains and the economy as a whole are finally starting to fade into the rearview mirror, but so far that has brought little relief to potential home buyers. Between skyrocketing inflation costs and unexpectedly similar mortgage rates, it's not surprising that many potential buyers these days are seeing the goal of home ownership less as a daunting challenge, and more as an increasingly impossible pipe dream. The market may be bleak for potential buyers at the moment, but there are signs that this storm shall pass in time, and it is often said that the night grows darkest just before dawn. The night is dark indeed for buyers at the moment, but there are some glimmers of what might be hope hiding beneath grim numbers.

Weathering The Storm

Record highs in home prices and towering mortgage rates look ominous, but there may be a glimmer of hope on the horizon for potential buyers.
There’s no way to sugarcoat it, the market is bad for buyers at the moment. In fact, it is in many ways the worst it’s ever been for potential new homeowners. A new record high in average home prices was set this June at $416,000, and mortgage rates climbed to as high as 5.81%. To describe the US housing market from the pandemic era on as “a seller’s market” would be a monumental understatement. That fact is unlikely to change in the near future, with average home prices in some markets now up over 50% from 2019’s numbers. Making matters exponentially worse, mortgage rates have spiked in response to a history-making pair of interest rate hikes from the US Federal Reserve in recent weeks. These hikes were taken as measures to combat growing inflation that has gripped the US economy since the pandemic but have had the side effect of making mortgage rates very volatile. Those rates are expected to stabilize to around six percent by the end of the year, but there is a possibility that they could begin to fall next year.

Buyers are rightfully feeling most daunted by the recent mortgage rate hikes, because the changes in those numbers have more capacity to add to the total debt of their home purchases. But unlike in previous periods of market wide housing unaffordability, such as during the recession of 2004-2008, this crisis isn’t being primarily driven by high mortgage rates, job losses and unemployment. This one instead has its roots in the staggering inventory shortages of the housing market after it shut down during the height of the Covid-19 pandemic. A combination of increased demand, underproduction before the pandemic, and supply chain failures during its height have driven the supply of homes on the market to new lows, and the prices of what’s left to all-time highs.

**Things Will Get Better**

...Right?

The bad news is that the most recent housing numbers have been a gut-punch to potential buyers. Surging inflation, mortgage costs, and overall average house prices have left many rethinking their real estate plans in recent months. Already the total number of predicted home sales for 2022 will be 13% lower than last year’s numbers, but while this is undoubtedly disappointing for those would-be buyers, the overall effects of this buyer hesitation may actually end up easing the worst effects of the current market.

Although the most recent market statistics are overwhelmingly ominous, June’s numbers also came with a few silver linings tucked away, including it being the fifth consecutive month in which
the total sales of new homes declined. This recent turning of buyers' stomachs may be the first sign of cracks in the market’s previously impenetrable growth and inflation rates. With this decrease in buyer demand, the market may finally begin to recover some of its inventory deficit, and with it, the average prices of homes on the market may finally begin to settle back down as well. June’s numbers have provided a smidgen of hope in this regard, showing an increase in total housing inventory for the first time in three years. Unfortunately, any progress made on this front will have to be of the slow and steady variety. Rebuilding the housing market’s inventory and backing down from the current precipice of high prices and worse mortgage rates will take time. Especially with fears of recession looming for 2023, many economists are predicting that, even once the housing market cools, we still probably won’t see any real change in its status for some time to come.

What Do We Do Now?

Every home purchase is a deeply personal decision, based on innumerable factors that make your situation, goals, and plan completely unique.

Statistics, figures and market predictions are all very well and good, but what if you need to make a home buying decision right now? How do you know if this is the right time to buy a house or not, and how do you actually buy it? The answer, unfortunately, can only come from you. Every home purchase is a deeply personal decision, based on innumerable factors that make your situation, goals, and plan completely unique. These factors certainly include the outlook of the market, but they are not at all limited to them. Simply put, yes, the housing market is far from ideal for buyers at the moment. Caution is the name of the game for anyone considering such an important purchase right now, but that doesn’t necessarily mean that now is the wrong time for you to buy. Current housing prices and mortgage rates practically ensure that any potential buyers today will be doing so in worse conditions than they would have before 2020. They will be forced to pay much more for the same properties, and probably repay loans at much higher interest rates than before. As we discussed, these factors alone are
enough to disqualify many would-be buyers, and that fact is being reflected by the dearth of total home sales in recent months. But that doesn’t change the fact that buying and owning your own home can be one of the best financial decisions a person can make for themselves, and for some, these factors may be worth the gamble overall if they can afford to bet.

You may be tempted to just settle in and wait for the market to improve. After all, it’s the worst it’s ever been right now, and it looks like it might be a little better next year or the year after. For many, this is the exact truth of the situation, it is too hot and too pricey for many to financially endure. For these folks, the best move is to hunker down, and keep building credit while we all wait this thing out and hope for better market prospects down the road.

But if you do have the ability to handle the extra financial woes of being a buyer in today’s market, it may not be the best move for you to hunker down as well. This is because, as you may have noticed, the housing market and the economy as whole, have been highly volatile recently. There is no surefire guarantee that the housing market will be better soon. Market conditions look hopeful in a big picture sort of way at the moment, and analysts are pleased to say that it will keep improving through 2023 and beyond, but they have been surprised before. With inflation still rising, and all of our economy’s necessary supply chains revealed to be concerningly thin and brittle, every long term guarantee should be taken with a grain of salt. The wider economy has other factors to consider as well, such as growing rent prices across the country, hitting a new record high this May. Renters who can manage to buy a home may want to do so despite the harshness of the current housing market, so that they can escape the renting cycle before May’s record is inevitably smashed again in the near future. Average prices and mortgage rates may seem sky high right now, and they have little chance of falling soon, but if buying is still a viable option for your financial situation, then it may be worth considering biting that bullet now, rather than risk whatever changes the market brings us later.
For The Holdouts

If the current market is too hot for you to safely consider buying a home, there are still steps you can take towards achieving that goal one day. One of the most important steps you can take towards future home buying is improving your credit score. This little number is very important, and banks will use it to determine what size loans to offer you, and at what interest rates to charge you on those loans. Credit can be relatively easy to build despite its immense importance in your financial life, though slow and steady is also the name of the game here. The first steps towards improving your credit score can be as simple as applying for a new credit card and carefully using it to demonstrate your debt repayment prowess.

Taking the time to build your credit now can vastly improve your bargaining power later. The Housing & Education Alliance has a number of resources dedicated to helping you improve your credit, including a downloadable credit guide and financial counseling services available here.

Beyond building your credit, your best move is to further amass the other tools at your disposal - wealth and information. You should do whatever you can to further educate yourself on wealth building techniques and the details of the house buying process, both topics the Housing & Education Alliance has resources ready to help you with.

Your first step should be to register for the award-winning course HomeTRACK Online and HomeTRACK en Español. This award-winning course covers many important topics including budgeting, improving your credit score, how to choose a lender, realtor and mortgage, who is on your home buying team and their roles, understanding closing documents and much more. Taking this course should be the first step in anyone’s home buying journey.

Once you take the course you will know what you need to do to become mortgage ready and put yourself in the best possible position to receive the best mortgage rate and program. You may need to improve your credit score, pay down bills, save for down payment and closing costs. This course will also help you determine if you are eligible for any down payment assistance that can help you purchase your home. You can learn more about this exciting class that will demystify the homebuying process at www.hometrackonline.org

For The Buyers

If you have the capital and the plan to make home buying work for you despite the market, then there are lots of things you can do to improve your position. For you too, your best
weapon is information, and the Housing & Education Alliance has plenty of it to help you find the best deals possible in today’s market. These include home buying guides, that take you through each step of the decision making and home buying process. These guides can help you through everything from calculating what kind of mortgage plan you can afford, to how to negotiate the closing steps with an agent or seller. Our HomeTRACK Online course is approved by the US Department of Housing and Urban Development (HUD). These classes can not only teach you the ins and outs of the home buying process, but can also qualify you for substantial down payment assistance after completion.

In addition, there are quite a few pitfalls first time home buyers should look to avoid. Many of these traps lay behind the convoluted nature of mortgages, which is part of why arming yourself with information about these processes is a must. One of the most common mortgage traps to avoid are Adjustable-Rate Mortgages (ARMs). ARMs are not always bad, and can seem quite tempting with low interest rates right off the bat. The issue is that your lender can adjust that interest rate later on, and if the market shifts, you could wind up paying far more than you initially bargained for. This is why most certified housing counselors recommend that buyers, especially first-time buyers, should be wary of ARMs. Nevertheless, there is a cornucopia of offerings available to you on the market today, it is up to you to be cautious and deliberate in your financing and buying choices in the current market. You should protect yourself by conducting diligent research on, and serious financial consideration of, any offers you receive and how they’ll apply to your unique situation.

The best advice for first-time homebuyers is to always start with homebuyer education from a HUD certified agency like HomeTRACK Online. www.hometrackonline.org Not only will you get a wealth of information on the homebuying process, but the Certificate issued upon completion will allow eligible buyers to access down payment assistance which could mean $10,000, $20,000, $30,000 and even more depending where you are buying. A HUD counselor will be able to recommend approved realtors as well as lenders that can offer additional down payment assistance. This assistance can be layered with local, state and federal assistance programs. A HUD certified housing counselor can be your best resource and will ensure you will avoid predatory lending practices.
**Closing**

The housing market is not good for buyers right now, it hasn’t been for some time and the odds are that it will get worse before it gets better. But the odds are also that it *will* get better, and whether it makes more sense for you to make a plan and take your chances now, or hunker down and wait for better conditions to develop, you can always keep building, keep learning, and keep striving towards the goal of home ownership. Either way, information is your greatest resource, the more you know, the more you can save. If home ownership is your goal at any point, now is the time to learn what it takes to become mortgage ready. Your second biggest resource is your wealth and your credit score. Both can be built up now whether you intend on buying a home tomorrow or in ten years. Look into resources that can help you, such as the home buying guides provided by the Housing & Education Alliance, or the classes, counselors, and funds approved by HUD. Though the housing market is definitely set against you right now, there are still ways to make it work, and there are still ways to become a homeowner.