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7 Homebuyer Strategies To The Lowest Payment

When Interest Rates Are High

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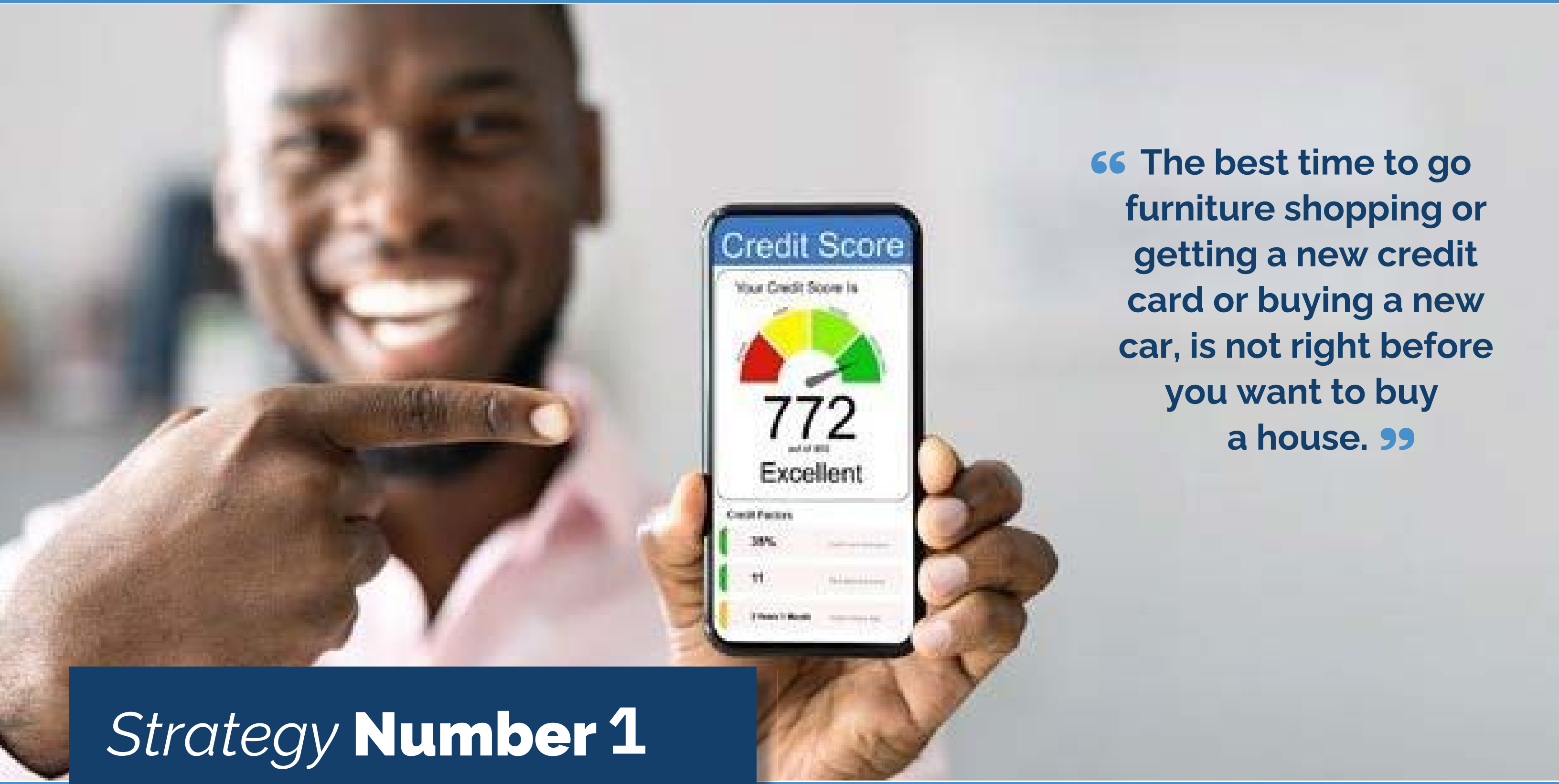

> “The best time to go furniture shopping or getting a new credit card or buying a new car, is not right before you want to buy a house.”

Strategy **Number 1**

Make sure you’re putting your best credit foot forward

Hodge: So, being a mortgage expert, I know that you’ve looked at a lot of loans. You know what controls that. So, we’re going to start there. Present the best credit to attain the best rates. So what is a deep dive there in terms of preparing yourself to apply for a loan?

Palmer: That’s our rst strategy, making sure you’re putting your absolute best credit foot forward at the time that you apply. In a very low interest rate environment, a di erence in credit score can actually have less of an impact on the rate. But now, in a higher rate environment, that lower credit score can really impact your mortgage rate. I’m not talking about bad credit or good credit. I’m talking more excellent credit to perfect credit.

So, if you have credit challenges you need to work on, that’s a whole di erent series that we’re going to be putting out for our agents to help their clients with. This is more for that customer who has good credit, maybe a 720 credit score, but if they can get up to a 740 or a 760 score right before they apply for the mortgage, they’re going to see a reduction in interest rate and open up additional products in today’s market.

There’s a couple little tricks you can do there. The rst thing is monitoring your credit. I like myFICO. It uses the FICO score, not what I call a “fake-o” score. The “fake-o” score is where a lot of these companies will put out that it’s not the actual credit score used by lenders. The FICO score is the score used by lenders. If you monitor your FICO score through one of these monitoring services, you can see little uctuations. And, you know when you’re at your absolute best, so that’s when you want to apply for the mortgage. You want to strategically have your credit pulled when it’s at its peak and that credit report is good for 4 to 6 months, depending on the lender. So, you have a nice window to shop for the home but picking that right day can be important. All right. So, what types of things can hurt your credit?

Opening new accounts

The best time to go furniture shopping or getting a new credit card or buying a new car, is not right before you want to buy a house. It’s important to keep that in mind all the way through the home buying process. Any large purchases, new debts you want to take out, you need to put those on hold and wait until after you purchase your home because they will impact your credit score. The other thing is the timing of when you pay your credit card bills

...and this is a big one.

So usually, if you’re like me, I get my credit card statement in the mail and then I pay it o in full and then I use it again and I get another credit card statement in the mail a month later and I pay that o in full. Well, what happens is the credit bureaus are reporting that monthly ending balance on the statement every month.

So even though I’m paying it o every month, it looks to the credit bureaus like I’m carrying a balance, because when I got my January statement, the balance was $1,000. I mailed in a check for $1,000. Well, then I bought more gas and groceries. And so, in the February statement came, it said I owed $1,000 again. So, to the credit card and the bureaus, it looks like I never paid it o . The important minor shift to make is, right before you’re going to apply for a home loan, pay those credit cards in full right before the statement comes out.

I know that my statement comes out on the 12th every month. So instead of waiting until I get the statement and then paying it o , January 15th to January 18th, which is still on time and doesn’t have interest charges, I want to pay it o on January 10th or January 9th. So that when the bank actually generates my monthly credit card statement, they mail it out with a zero balance, because when they mail that credit card statement out with a zero balance, now that’s what’s reported to the credit bureaus. And the percentage of balance to limit is a very important factor in calculating your credit score. So, the higher your limits are and the lower your balances are, the better your credit score will be.

Now, let’s say that you have a little bit of balance you carry. Maybe you had an emergency, you had to put new tires on your car. You’ve got that balance that you can’t quite pay o . While we don’t want to open any new debts during this window, having the limits on your existing debts increased is a great strategy to improve your credit score in the short term. So, let’s say that I have $1,000 balance from buying new tires for my car and that credit card only has a $2,000 balance. If I reach out to the bank and ask them to increase my limit and maybe they increase it to $5000 or $10,000, that’s not a new debt.

So, it doesn’t hurt my credit score. But now, I go from owing half of my balance to only owing ten or 20% of my balance, which is a much better signal to the credit bureaus. So not adding new credit, not adding new debt, making sure the debt you have is paid down as much as you can pay it down right before the statement drops and then also asking for increases on any debts that do carry a balance so the ratio of the percentage of owed to balance is as low as possible.

Those are the three things you can do right before you apply for a home loan in addition to monitoring that credit, knowing when things are at their peak and making sure that you have the best possible credit score because that will have an impact on your interest rate in this type of environment. Beyond that, obviously paying your bills on time, not having collections, those are all important. But if you haven't done that now, you want to start. But that's not going to make an immediate impact. These three strategies will make an immediate impact on your score, which will help make sure you get the best mortgage rate now that you're trying to buy a home, which will help lower your payment.

Strategy Number 2

Shop around for home insurance

Hodge: Strategy number two - shop around for home insurance. So, as we're talking about the total cost of ownership, that means your taxes, your insurance, electricity bills, all of these things, not just necessarily what you're going to pay towards a mortgage.

We're talking about the total cost of ownership. And where a lot of people make mistakes is they don't look at those quotes on time until maybe it's too late. So, walk me through some strategies on preparing and looking at insurance and shopping early. How does that help you out through to the purchase price?

Palmer: This is an interesting one and I would see this all the time at my mortgage company. People would wait until the very last minute to get their insurance. We're literally trying to schedule their closing and we're begging them to go get insurance because we can't let them close on the new house until it's insured. We can't loan someone $300,000 on an uninsured house. So literally, like two days, three days before closing, we're begging the customer to go get insurance. Well, what does that mean? That means they haven't shopped around. It means they haven't considered any property details that may negatively impact that insurance quote.
And so, what we want you to do, as LPT Realty agents is, to make sure you're working with your customer to identify their insurance agent very early in the process. I would even make this part of the identifying potential properties because from one property to another, insurance costs can be dramatically di erent. And now we're in a situation where mortgage payments and home payments are already high, adding another 100 bucks for insurance or 200 bucks for insurance can be very detrimental to someone's a ordability.
So now we want to bring that insurance into the conversation much earlier where you can actually do something about it. And so, as an agent, you want to work with your clients to make sure they've identi ed that insurance agent and probably have a couple they can talk to. And then

as they start to fall in love with properties and houses and you make o ers, engage with the insurance agent, then. During that inspection period you have a few choices. You can ask the seller to complete repairs that will help bring down the insurance costs. Or you can decide to walk away from that home completely if you get an unexpected surprise and say the insurance is $200 to $300 more a month than you were budgeting. You say, “Robert, what could create a $200 to $300 more a month in insurance?”

So, let’s talk about that. A roof that’s on its last leg. If the roof is very old, particularly here in Florida, where roo ng costs for insurance companies is very, very high, having a roof that’s near the end of its life expectancy can have a dramatic increase in the insurance rates. And so, if you go to the seller and say, hey, we’re going to need you to put a new roof on the house, that may make a $200 di erence in your monthly insurance costs by asking the seller to replace that roof.

These are the types of strategies we’re going to use. And again, if you’re waiting until the last minute and you’re out of your inspection period, you no longer have any leverage to ask the seller to make those changes or make those repairs. Or you may just have to say, you know what, as much as I love this house, because of the roof or because of the pipes or because of whatever the situation is that’s making the insurance go sky high, I just can’t a ord this house. I need to go nd a home that has a newer roof, that has better plumbing so that I can get the best possible insurance rates, because we’ll see insurance range from as low as $1,200 to $1,500 a year, all the way up to $5,000 a year for similar priced houses just based on the characteristics of that house.

So, our second strategy is to engage the insurance agent earlier to get those quotes and then understand the characteristics of the house that will drive those insurance costs. We have a list of these we’re going to talk through right now.

Things that you can do or make sure a home has, to get the best possible insurance rates.

And so, those are things like installing smoke detectors. This is a big one. A lot of homes have them. It’s code. Some older homes do not.

The insurance company will love it if your home has smoke detectors and it's a safety thing for your family. If the home doesn't have smoke detectors, asking the seller to install them is easy to do during the inspection period. Not so easy the day before closing. Upgrading the roof, we talked about this one. This is probably the single largest impact you can have in most homes, again, particularly in Florida, is making sure the roof is newer, the type of roof and if the roof is negatively impacting the insurance, quote, let the insurance agent know that. And you can then ask the seller to put a new roof on, we have negotiating power right now because of the market shift. Or go to a di erent house that already has a newer roof, so it's not going to negatively impact that insurance. Upgrading windows, siding and storm shutters. This all kind of ts in the category of fortifying the home. So, a home that's coastal or in a hurricane area. Again, we're talking a lot about Florida today, knowing that the home has hurricane shutters, newer windows, better siding. These can all help lower those insurance costs. If you're communicating with your insurance agent early, you can either identify homes that have these right characteristics, or you can ask the seller to make these upgrades and improvements.

If the home has a pool, this will make insurance more expensive. The cost of owning a pool is much more than just the impact on the purchase price. So, if you have a pool, you want to make sure it's fenced in. An unfenced pool can have a very, very negative impact on your insurance rates. You could ask the seller to add a fence around the pool, or you can go to a di erent house that maybe doesn't have a pool or already has a fence around the pool. This will have a big impact on those insurance rates. And again, we're talking potentially hundreds of dollars a month in cost. Updating electrical wiring can have a very big impact on the insurance costs. Maybe that's one the seller doesn't want to pay for. It's too expensive. That could cause you to change the home you're interested in if you're going to pay an extra $200 a month for insurance because it has outdated wiring or outdated plumbing. Insurance

companies don't like this. It increases the rates of claims. So having a water shuto system installed or having the right types of pipes in the home, all of these are things that you should be engaging in discussing with your insurance agent.

So that is strategy number two. Talk to your insurance agent and understand that certain features of the home like roof age, roof style, piping, electrical wiring, whether or not there's a pool, can all have a massive impact on your monthly payment, not to the purchase price, not to the mortgage rate, but through the insurance cost. As a smart consumer and as smart agents, we have to empower our consumers with this knowledge.

Hodge: So, in summary, when you're looking at a home and you're thinking about what to negotiate inside the inspection period, I know a tendency is to say, "hey, I'd like to receive a credit for X, or I just want to bring down purchase price to deal with these things that I've now discovered during the inspection period." What you're saying is maybe utilize that negotiating power to push towards things that the seller could x, that ultimately lower your total cost of ownership by getting a smaller or less expensive premium on your insurance.

Palmer: That's it. We're looking for the lowest possible monthly payment, which includes the principal, the interest, the taxes and insurance, and then the utilities and other cost of ownership. And so, today's Seven Strategies is all about that. And as you just mentioned, using your negotiations with the seller to help drive down your monthly cost, not just driving down the purchase price because the two are not necessarily the same thing.

Strategy **Number 3**
Request an audit of past months utility bills

Hodge: Okay. So that brings us to number three, which is requesting an audit of past months' utility. Why would that be important?

Palmer: As a new buyer going in, you don't necessarily know how energy e cient that home is. You don't understand what the costs are. And this is a place, again, where we can see a dramatic change in cost from home to home. A newer home with maybe lower ceilings, more energy e cient, higher e ciency appliances and air conditioning units may be very e cient to run. An older home, maybe there's vaulted ceilings, maybe the insulation isn't so great, maybe there's some wasted square footage that can be very expensive to heat and cool. And if there's older appliances, so you don't want to get in there and maybe you've come from an apartment where you spend $100 a month on the energy bill and you're expecting maybe a slight increase, and you get a $500 energy bill because the home is extremely ine cient. So, as agents, by engaging with your customers to request copies of past utility bills from that home again during the inspection period, when we still have leverage as a buyer, can give you the ability to impact that monthly payment. What can we do about it?
Well, we can ask the seller to give us improvements. We can ask the seller to put in a new AC unit. We can ask the seller to put in a new hot water heater. We can ask the seller to have new insulation put into the home, or we can just decide to say, you know what, the utility bills on this home are just too high. I can't a ord a $500 a month utility bill. When would you rather nd that out? The day after closing, when it's too late, or during the inspection period when you can ask the seller to make improvements, or you can walk away because the utilities are just too high?
So, as agents, by working with your customers and helping educate them by obtaining these utility bills early on during the inspection period, now

you can make better decisions. So other things the seller can do. And we've talked about AC, water heater, updated lighting, replacing old windows, adding solar panels to a house, or the house has solar panels, updated insulation, all of these things will impact. There's actually a special kind of inspection called an H.E.R.S. Evaluation where an actual energy expert will come in and they'll tell you some of these things.

So, if you absolutely love that home, but you don't love the potential of a $500 utility bill because you see that's what the seller paid the last couple of months, then you want to have this type of inspection done so you can really recommend to the seller the right types of improvements. "Hey, Mr. Seller, I'll buy your home, but you're going to have to upgrade the insulation, you're going to have to upgrade the AC unit because this is what the H.E.R.S. inspection is telling me is going to be most impactful to bring down those utility bills."

It's important too, when you work with your clients, not just to get utility bills in the last few months, but through a couple of di erent seasons. What does the utility bill look like during the winter? What do utility bills look like during the summer? And so, understanding all these costs and not just electricity, gas, you know, if the home has gas heating or a gas stove, this may be a new cost for a lot of home buyers. Maybe they're used to only electric and now there's a gas bill component as well. Sewer charges, water charges. So, helping your client understand those total costs is important, because from neighborhood to neighborhood and city to city, those costs can change.

And if your customer is looking for an a ordable payment while still being able to buy the right home for them, these type of things have to come in the decision making, and, as agents, we haven't really considered this as much the last few years because when interest rates were so low and sellers had all the power, it was really just kind of take what you can get. Where today, interest rates are higher, so we have to be more e cient in making sure our customers get a low monthly payment by using these other strategies.

Hodge: So, over the last couple of years, essentially, the buyer was giving up all their rights, you could say during the purchase. But now we're getting back into equilibrium. And so, this is a time that you want to reintroduce these things to help our buyers make a smart purchase, and that doesn't necessarily mean we weren't doing that in the past, but in order to get that o er accepted, the buyer had to be willing to give up some of these things, and now that's returning. We're just talking about the best ways to utilize that negotiating power that's returned back to the buyer.

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Strategy **Number 4**

Fixed costs you can't fix

Hodge: So, let's head on to number four. Fixed costs you can't fix.

So that's going to be taxes, millage rate CDDs. Walk me through the importance of that and how that's going to affect your affordability monthly.

Palmer: So, this isn't one we can negotiate away. Most of these are going to be what they're going to be. But as we're making decisions on where we look for homes, these are costs that you really should consider. Because, again, what we're trying to make sure everyone understands is there's a lot more to that monthly payment than just the purchase price. You can have two similarly priced homes, but if the tax rates are dramatically different between the two areas, if one area has what's called a CDD, which is whereas a part of the development, the cost of all those roads and sewers were tacked on to the tax bills as an extra line item, that can cause a dramatic increase in taxes. So you could see similar homes, similar square footage, similar price, but the taxes could be hundreds of dollars a month more if it's an area with a CDD or a very high millage rate. And these are things, as agents, we need to make sure you're walking your customers through. What are the other fixed costs you can't fix? Condo dues, HOA dues, maybe you're looking at a condo. Well, if you're looking at a condo, you need to be looking at a much lower purchase price because we know the condo dues are going to be very high relative to a home that's not in HOA. Even some HOA, full maintenance HOA is where they take care of the yard work and exterior painting. These will carry higher monthly payments to the HOA, which then reduces the buying power.

So, while these aren't things we can x, the important strategy here is to be aware of them and understand how they impact your purchase price. So, while the customer may think, oh, I want to buy $400,000 homes, well, a home in a townhome with a high HOA and a high CDD, they may have to look at a $360,000 home. Where a home that's not in an HOA with a very low tax rate, maybe they can look at a $420,000 home. The other big part of that in the tax world is homestead exemption.
So, understanding, will you be able to le homestead exemption, which here in Florida is a massive deduction, and if it's going to be your primary residence, you can le that. But there's a few gotchas when it comes to homestead exemption as far as what the taxes that the home is currently being charged for the old seller.
The amount your taxes can go up each year is limited. However, when you sell that home to a new buyer, if they don't use the portability of their homestead exemption, the home can be reassessed to current market. So, we've seen situations where taxes can double or triple for that new buyer because the old seller had homestead exemption for a lot of years. Be aware of this. Make sure you're running tax estimations for your clients to help them understand the real cost of the taxes.
On the ip side, if the seller does not have homestead exemption because it was a rental property. Or maybe it's a ip. You can see a great reduction in taxes when you buy the house, so just going o last year's taxes is not necessarily the best way to understand the xed cost of the property taxes. We want to make sure we're looking at the circumstances causing that tax bill

> *“We need to be aware of them so that we can help educate our clients so that we don't end up under contract on a home and then we have a massive surprise in monthly cost.”*

and running a tax estimation. The last thing you want to do is have a customer walk away from a house if the taxes seem very high because the seller didn't have homestead exemption, or be drawn to a house if the taxes seem arti cially low because the seller had homestead exemption for a very long time and our customer doesn't have the same type of bene ts through their portability to keep that value low..

So really dig into the tax number and make sure that your client understands that tax cost because while they can't change it, they can decide to buy a di erent home in an area that doesn't have those high taxes. Finally, the last thing we can do is if you do buy a home and you see the tax bill increasing dramatically, you can always challenge that valuation with the assessor's o ce, with the property appraisers o ce to try to get that valuation brought down.

We're seeing a situation now where we've had a lot of years of home price increases. Some tax assessors may try to lean into that and continue to push the number up maybe higher than it needs to go. So, if you do nd yourself in a situation where a home you purchase is assessed much higher, you can challenge that, and agents, this is something you can help your customers do Post-Closing is challenge that tax assessment to try to bring it back down. So those are the xed costs that we can't x. We need to be aware of them so that we can help educate our clients so that we don't end up under contract on a home and then we have a massive surprise in monthly cost. So, the strategy there is to avoid these types of situations that may cause an undesirable increase in xed costs: Taxes, HOA dues, condo dues that are unexpected for the client to make sure they have a payment that they can a ord.

Hodge: One more cost that we didn't talk about is ood insurance that's particularly on people's minds right now. We just had a 100-year ood event happen. And so, people realize that maybe sometimes you are not in a ood zone and it becomes a ood zone. And so that's going to be reassessed. So, what are the strategies and how should we be looking at ood insurance at the start of the transaction?

Palmer: Flood insurance is required when your home is identi ed as being in a ood zone by FEMA. This is one of the things that a lot of customers wait too late in the process to identify. They wait until the insurance agent or the

> **"That flood insurance could have a very large negative impact on your monthly payment."**

mortgage company or the appraiser tells them they’re in a ood zone and now you’re probably out of your inspection window and it’s too late to cancel and go back. But that ood insurance could have a very large negative impact on your monthly payment.

So, this is another one that falls into that xed cost. We can’t x category; we can’t do anything about it. But being aware of it and deciding, and just because a home isn’t coastal or isn’t near a river or a lake, doesn’t mean it’s not a ood zone. You’d be surprised by some of the homes that we see come back as being in a ood zone. So, agents work with your clients early. Have those ood zones checked, talk to the seller, talk to the FEMA maps, talk to the appraiser, the home inspectors. Make sure that you’re understanding if that home is in a ood zone so that the buyer can make a good decision, do they want to have that extra cost? Because that can be, again, hundreds of dollars a month on the monthly payment by Hodge: One more cost that we didn’t talk about is ood insurance that’s particularly on people’s minds right now. We just had a 100-year ood event happen. And so, people realize that maybe sometimes you are not in a ood zone and it becomes a ood zone. And so that’s going to be reassessed. So, what are the strategies and how should we be looking at ood insurance at the start of the transaction?

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Hodge: So, we’re looking at a house that’s $300,000 and not in a ood zone. You’re looking at a house that’s $270,000 in a ood zone. The cost of ownership really is the same.

Palmer: Or potentially more for the house with the ood insurance.

Hodge: Right, exactly. So the cost of ownership is going to change. It’s not necessarily just about the purchase price. It’s about all these individual factors that will continue to break down for you. Next mortgage strategies, ARM versus xed. I know that ARMs got a bad rap in 2007 and 2008 when there were all these stated loans a lot of ARMs, and then that busted. So the industry rapidly tightened after that with all the trade laws and all the things like that. But what is the strategy now with ARM versus xed?

Strategy **Number 5**

Make sure you get the best mortgage deal

Palmer: So, strategy number ve has to do with mortgage decisions you can make as the buyer. And a couple of things here. As you're working with an agent, you want to make sure you talk to more than one mortgage professional. All the agents here at LPT Realty, and agents you work with, have some local experts they love to work with, which is who you are going to get the best service from. But make sure you're comparing a few of them to make sure you're getting the best rate as well. In a high interest rate environment like this, the di erence in rate quotes from lender to lender can be dramatic. We want to shop around, so ask your agent and agents, make sure you're giving the customers a few choices of those great local experts that you work with so they can get a few competing quotes to make sure they're getting a great deal.

Beyond that, you want to analyze the potential of buying down the interest rate. You can pay discount points to buy down the interest rate. You can look at an adjustable-rate mortgage again, depending on how long you think you're going to be in that house. If this is a stepping stone house and not a forever house, or if you believe interest rates are going to come down in the future, that adjustable-rate mortgage may make a lot of sense. One of the best sources for adjustable rate mortgages right now is actually credit unions. The way they're structured, the way the laws work around their capital, credit unions are usually able to give a very good rate on ARMs, where independent mortgage brokers and bankers are not as competitive as those credit unions. So, our agents want to make sure they have that credit union in their back pocket to connect an agent with, who they know is going to give good service, but also give a potentially great rate on an ARM. Beyond that, make sure you have the right mortgage, understand how much your down payment is going to be.

Larger down payments will lower that that monthly payment. It can eliminate mortgage insurance, but it also reduces your monthly reserves and increases the amount of money you have to come out of pocket with. So really working between the agent, the consumer and those couple of great local mortgage partners to talk about di erent mortgage strategies, talking about ARM versus xed, talking about interest rate buy downs, talking about FHA versus conventional versus VA. If you're a veteran, VA loans carry very low payments because they don't have that monthly mortgage insurance. It is a huge bene t to veterans. FHA loans can carry a low down payment, but they do have higher monthly mortgage insurance and the conventional loans have lower monthly mortgage insurance. It still requires it for less than 20% down.

So, going through these di erent strategies to really understand, am I getting the best mortgage for me? Have I shopped around? Have I compared a few di erent quotes? Have I compared a few di erent mortgage products and let myself balance and decide the right amount of down payment compared to a loan product so that I can have the lowest payment possible? Because we've made sure our credit score is as high as possible, we're going to qualify for an amazing interest rate. And because we've done our job and shopped around for our insurance and all these other things we have, we're going to have a great overall bundled package for that monthly mortgage payment, but making sure you get the right interest rate on the right loan program is about communication and shopping around and talking to multiple of those great local mortgage providers that your agent will connect you with.

Strategy **Number 6**

Ways to use Seller Contributions to save

Hodge: Okay. So we talked about mortgage strategies, so let's move on to topic number six.

Palmer: Strategy number six is similar. It still has to do with mortgage. But now, instead of looking at what you can do to make sure you get the best deal on your mortgage, we're going to talk about some things you can ask the seller to do as a part of those negotiations to help you get a lower mortgage payment. A couple of strategies there that we're seeing become more popular now that interest rates have risen, the rst being what's called a buy down.

These come in the form of a 2-1 buy down or a 3-2-1 buy down or even 1-1 buy down. And all those fancy numbers just mean that the seller is going to pay a portion of your interest rate for the early years of your mortgage. So on a 2-1 buy down, it means the seller is going to pay 2% of your interest rate for the rst year and 1% of your interest rate the second year. And then from the third year and beyond, you make the full payment yourself. You see this happen a lot with home builders, but now we're starting to see traditional sellers embrace this as well. So, the buy down gives you a lower rate, let's say the going market rate is 6%. You would only pay a 4% rate the rst year because the seller is going to pay the other 2% for you. And then the second year, you would pay a 5% and the seller pays 1% for you.
Then for the next 27 years, you're going to pay the full 6% yourself. So, this can be an interesting strategy to help you in the early years of that homeownership, to get a lower payment by asking the seller to come in and help fund what's called a temporary buy down. Now, the alternative to a temporary buy down is a permanent buy down. This is where you can pay what's called discount

points to buy down your interest rate. Well, maybe you don't have the money or don't want to come out of pocket with those discount points.

Guess what? You can ask the seller to pay those discount points for you as a part of the negotiations. So now, instead of the seller paying a temporary portion of your interest for only the rst or second year, they can pay discount points to lower your interest rate for the entire term of the loan. So if you ask the seller to pay one, two or three discount points on your behalf, that can lower your interest rate back down to better levels, giving you a lower payment for the entire term of the loan. This is another strategy to look at with your clients. Talk to the sellers. If you think you can negotiate additional seller credits, make sure that some of that can be used and possibly applied toward a permanent buy down on the interest rate or the temporary based on the interest rate.

And then the nal strategy. If you are putting less than 20% down or your client is putting less than 20% down, you can look at having the seller buy out the mortgage insurance. So, we talked about how monthly mortgage insurance is a part of that cost. Whenever you put less than 20% down on a mortgage, you must pay what's called mortgage insurance. Now, mortgage insurance doesn't protect you as the homeowner, it protects the lender. So, if you don't make your monthly payments and the lender has to foreclose, the mortgage insurance company writes a check to the lender to cover the losses. And that insurance can be expensive. It can cost hundreds of dollars a month. For example, where with a 6% interest rate on a $400,000 home, we compare two di erent strategies.

Strategy One is asking the seller to take the money o of the purchase price. So, we're asking for an $8,000 seller concession. Strategy two, is asking the seller to take that same $8,000 and use it to buy out your mortgage insurance. And what this results in is $133 less a month on your payment by asking the seller to buy out your mortgage insurance instead of reducing the sales price by that same $8,000.

This is a great strategy for someone who's putting less than 20% down. If the consumer is putting 5% down 10% down 15% down, asking the seller to pay for that mortgage insurance instead of lowering the sales price as a part of your negotiations can be hundreds of dollars less in that monthly payment.

So, in this section, strategy number six, these are ways the seller can help you with a lower mortgage payment.

There's three ways the seller can do that. By what's called a temporary buy down where they only help with your interest rate for the rst few years. They can fund what's called a permanent buy down where they bite on your interest rate for the entire term, or, if you're putting less than 20% down, they can do what's called a mortgage insurance buyout where the seller buys out your mortgage insurance, and that actually has the biggest impact. If you're already putting 20% down, that one doesn't help you because you won't have mortgage insurance. But if you're putting less than 20% down, the mortgage insurance buyout is one of the most impactful ways to bring down that monthly payment for the home you're purchasing.

Hodge: Those are three ways any seller can help you with your monthly mortgage. But there's one that's less talked about and it's "assumable". So, could you walk me through what is the strategy with that and how should we negotiate that?

Palmer: We know that there are loans out there

right now, lots of them with very, very low interest rates. A lot of people were able to lock in interest rates in the twos for 30 years and those are theirs forever. And on certain types of loans, a new buyer can do what's called assume that mortgage. VA loans are a great example of this. Most VA loans are assumable. If you're buying a home from a veteran and that veteran was able to lock in, say, a 2.75%, 30 year xed on a VA loan when rates were very low, as a new buyer, you can potentially assume that mortgage and then you will have that 2.75% rate for the next 27 or 28 years.
This isn't available on every house and sometimes it can be di cult to identify. The VA, in particular, is a little bit easier. Those are recorded. As agents, you can help your customers nd homes that have a VA loan that may be assumable. There are other types of loans that are assumable, but they're much rarer. But when you nd that listing, hopefully the listing agents are making that clear as a part of their listing remarks because it is a huge value that they have there, the ability to pass that ultra-low rate mortgage on to the new buyer. If the listing agent isn't aware of it, but you as an LPT Realty agent can go nd that and present it to your customers, you give them an opportunity to have a much, much lower payment because they're able to assume that low rate, which is now very low below market, that the veteran who owned the home before them was able to lock in. The new buyer does not have to have military service. They don't have to be a veteran. To get a VA loan initially, you do have to serve in the military. But to assume someone else's VA loan, you do not. This can be a very powerful tactic to give yourself and your client a big, low interest rate opportunity, if one of the listings you're looking at has a VA loan that can be assumed. Now, one of the downsides to this is your down payment amount has to be the entire di erence between the existing VA loan and the new purchase price. Let's say it's a $400,000 house and the VA loan on it currently is only $200,000, you can only assume $200,000 on that loan, which means you then either need cash for the other $200,000 or potentially look at a home equity line of credit to cover the di erence. So while that can be di cult to navigate and a little tricky, when you stumble across one of those golden nuggets of an assumable loan with a very low interest rate, make sure you're helping your clients take advantage of that situation.

Ways to use Seller Contributions to save

Putting less than 20% Down?

Strategy 1
Ask Seller to take money off the purchase price ex. $8000 concession

Strategy 2
Ask seller to take ex. $8,000 and use it to buy out your mortgage insurance.

Lower Mortgage Payments

Strategy 1
Temporary Buy Down

Strategy 2
Permanent Buy Down

Strategy 3
Mortgage Insurance Buyout

Strategy **Number 7**

Make sure you're negotiating for the right things

Hodge: Finally, strategy number seven, negotiations for the right things. We talked about disconnecting purchase price from total cost of ownership and we're saying, hey, here are the things that you can go and negotiate that lower your total cost of ownership, not necessarily about purchase price, but about the total cost of ownership. So, what are the biggest impacts that we can do?
What can we negotiate to impact that a ordability?

Palmer: I think this is interesting because for the last few years, we couldn't negotiate much at all, you know, paying over purchase price, waiving inspections. We really saw this crazy market, particularly here in Florida, where now, as a home buyer, there is some power, there is some leverage. The ability to negotiate has come back. And traditionally, I think most buyers just believe, oh, when I negotiate, I'll just negotiate for a lower purchase price. But we've tried to show you here today, as to these other strategies, that there are other ways they can have a bigger impact on your monthly a ordability than just negotiating o the purchase price. You may actually nd a situation where it's best to make a full priced o er, but then ask for an upgraded roof to lower that monthly homeowner's insurance cost. Ask for a buyout of the mortgage insurance if you're putting less than 20% down to lower that monthly payment. Ask for a new AC unit if that's causing the energy bills to be through the roof.
If your goal and the goal of today's talk is making sure you get the absolute lowest monthly cost of the home you're buying, then when it comes time to negotiate with the seller, all of your negotiation should be driven by how much they can impact your monthly payment. What I would recommend is making a list of all the di erent categories we've talked about. Take strategies one through six and gure out which ones the seller can help you impact in the biggest way. Maybe it's the new roof, maybe it's the mortgage insurance buyout. Maybe it's assuming that VA loan, whatever that looks like. Understanding those strategies and writing those down so that as you're preparing the o er and then preparing any future counter o ers, you're taking these right things into account.
So, strategy number seven is to make sure you're negotiating for the right things because negotiating to get the lowest possible payment is

> ***"We really saw this crazy market, particularly here in Florida, where now, as a home buyer, there is some power, there is some leverage."***

a di erent set of negotiations than a negotiation to get the lowest purchase price. With our goal being the lowest possible payment, we want to frame all of our seller negotiations in that thread to make sure you can get the lowest possible payment as you buy that new home.

Hodge: So those are our seven strategies that you can utilize right now to help your buyers win in this rapidly changing market. Robert, thank you so much for your time today. Any nal thoughts?

Palmer: It's always exciting to come and help educate our LPT Realty agents so they can do an amazing job for our customers. We want to make sure that customers know when they hire an LPT Realty agent, they are getting the best and they're getting an agent armed with these types of amazing tools. These seven strategies are things you can use right now because it is a great time to buy a home. For the rst time in years, buyers have some leverage to negotiate and be a little pickier about the home they buy.

The only downside to buying right now is a higher monthly payment, but with these seven strategies, you can o set that higher payment by making some smart decisions and get the best of both worlds. An a ordable monthly payment and the house you want at a price where you had some negotiating power. We're excited to bring more parts of this series to our amazing LPT Realty agents as you continue to go out and help your clients be successful.

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