

Reconnect Corner

Volume 8, Issue 4 October–December 2022

Rising Interest & Cost of Becoming a Homeowner

If you are planning on purchasing a home, it can be intimidating to hear that interest rates are going up. Between 2021 to 2022, we went from record lows on interest rates to some of the highest rates we have seen in a while.

The bottom line is, the higher the interest rate the higher your monthly payment will be, and the more total interest you'll pay on the loan. Although you may find some positives — increases in interest rates tend to cause highly competitive sellers' market to level out, which can make it easier to purchase a home.

If you are in the market to buy a home in the current climate with increasing interest, you may want to consider what they call a rate buy down. Rate buy downs will cost you money up front, paid as part of the closing cost, but there are situations where buying down your interest rate can save you big bucks over the life of the loan.

The table below shows the impact a 1% higher interest rate can have on your monthly payment:

Understanding cost and savings of a rate buy down	
Rate at 4.5%	Rate at 3.5%
Loan amount: \$250,000	Loan amount: \$250,000
Taxes: \$1,500	Taxes: \$1,500
Insurance: \$1,000	Insurance: \$1,000
Term: 30 years	Term: 30 years
Payment: \$1,475	Payment: \$1,330
	Savings: Monthly – \$145, Yearly – \$1740

This information is for informational purposes only.

Because buying down the interest rate will cost money up front, make sure you understand how long it will take to offset that cost. On average the cost to buy down a point, or .25%, is equal to \$1,000. To buy down a full percentage it would cost roughly \$4,000. Of course, having a lower payment each month due to lower interest, or being able to afford to get into the house you really want can certainly be worth the cost of buying down your rate however, you'll still want to calculate how long it will take to make up the \$4,000 investment, so you can ultimately determine whether the upfront cost makes sense for you.

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PROGRAM LINKS

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In the example above, we show a yearly savings of \$1,740 and a buy down cost of \$4,000. It would take 2.3 years to recoup the initial \$4,000 investment. In this situation, if the buyer were planning on staying in this home for more than 2.3 years, buying down the rate would save them money over the life of the loan.

Beyond understanding current interest rates and if buying down your rate could be a long-term benefit to you, it's important to also make sure you do not underestimate the cost of homeownership from all sides: purchasing and owning.

WHEN BUYING A HOME BE PREPARED FOR THE COST OF:

- **Additional inspections:** Outside the standard cost of a traditional home inspection that can run \$500–\$700, termite inspection, radon testing, mold inspection, foundation inspection and hydrostatic pressure test all may be additional inspection that are recommended for your home.
- **Appraisal fee:** As part of receiving a mortgage the lender will require an appraisal of the property to understand if the loan amount is comparable to the market value of the home. On average this fee is around \$250.
- **Legal fees:** Conferring with a real estate lawyer is often not required but recommended when buying a home and completing this legal transaction.
- **Lender or broker fee:** Cost for the preparation of the documents needed to complete the purchase of a home ranges between \$600–\$1000.
- **Title insurance:** The title insurance policy for the lender is required and the title insurance policy for the buyer is an optional fee that would be paid as part of closing. The optional policy for the buyer is always recommended and protects you as the new owner if the previous owner did not actually own the home they sold to you or if any previous title issues arise. This insurance cost is based on the value of the home, but the average cost is around \$1,000.
- **Notary fee:** A notary will be a part of the closing process, and will require you to swear that you are who you say you are. The cost is around \$50 on average.
- **Private mortgage insurance (PMI) or Mortgage insurance premium (MIP):** This cost is charged monthly when a home is being bought with less than 20% down.
- **Survey fee:** Cost associated with supplying a survey or an outline of the boundaries of the property. Only a cost you must pay if there is a dispute of existing survey or there is no survey in place. This can range from \$150–\$400.

It's also important to plan for moving expenses, utility deposits, pest control cost (monthly, quarterly or yearly treatments), updates you want to make to the home, association fees, regular maintenance & breakdown of appliances. With a thorough understanding of rising interest rates, rate buy downs & the cost of becoming a homeowner you'll be better prepared for accomplishing your dream of homeownership.

Holiday Spending

With the holidays approaching, holiday spending can get out of control quickly without a holiday spending plan or budget in place. When it comes to managing your holiday spending, planning is very important and can determine whether you come into the new year with or without additional debt.

You will want to start by following the ABC's of holiday spending:

A
Analyze what you need to purchase

B
Budget before you go shopping

C
Compare prices and quality

You don't have to break the bank to have a memorable holiday season. Here are some low-cost gift giving ideas to consider:

- Go in with someone to split the cost
- Consider re-gifting
- Have everyone draw names
- Host a 'white elephant' gift exchange
- Make homemade gifts
- Give one gift per household

For More Information

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MSCCN

msccn.org

NCHV

nchv.org

TAPS

taps.org

Operation Homefront

operationhomefront.org

America's Warrior Partnership

americaswarriorpartnership.org

VETSEDU

vetsedu.org

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When it comes to holidays on a budget, communication is key. Holidays come with a lot of expectations which can make for a stressful time. If you're deciding to change up holiday spending and gifting, be sure to communicate your goals and changes, so friends and family are all on the same page.

Start by making a list of those you plan on buying gifts for. Then determine if you are able to shorten that list at all. Once you have identified how many people you will be buying for, set up a budgeted amount for each person, add it all up, and save periodically. For example, let's say you plan to spend \$600 and you have 4 months until the upcoming holiday, you will need to save \$150 each month to reach your goal. The earlier you start when saving for the holidays, the less of an impact it will have on your monthly budget. The goal is to keep from going into debt and avoid interest rates and fees.

The holidays are also typically a good time to give yourself a financial check-up. Here are some simple steps to help you:

Step 1: Review your credit

- Review your credit report every 12 months. You can pull your report once a year at annualcreditreport.com or call 877-322-8228 to request a free copy of your credit report.

Step 2: Make a plan and set a goal

- If you're carrying debt, plan ways to reduce or eliminate it.

Step 3: Calculate your net worth

- This will give you a view of your liabilities and assets.
- Start by listing all your assets (things you own & current value of automobiles, homes, property, other valuables, and savings/ retirement accounts).
- Next, list your liabilities (this includes revolving debt & balances owed on assets like automobiles and homes).
- Subtract your liabilities from your assets to give you your net worth.



VA Updates: Crisis Line & Self Screening

More than ever, mental health and wellness are critical. If you or someone you know is struggling, reach out for help as soon as possible.

For the new veteran crisis line, dial 988 and press 1. You can also chat at VeteransCrisisLine.net/Chat or text the crisis line by texting 838255.

And to access the online PTSD self-screening tool visit [PTSD Self-Screen - PTSD: National Center for PTSD \(va.gov\)](http://PTSD.Self-Screen-PTSD.NationalCenterforPTSD.va.gov).