Waiting Until Rates Drop To Buy A Home? Here Are 5 Steps You Can Take To Prepare

2022 has been difficult for those trying to afford a home. At the beginning of the year, home prices began climbing but interest rates were near record lows, offering at least some relief for those trying to buy a home...but that's no longer the case.

Mortgage rates have officially risen two percentage points since the start of the year while home prices have kept going up. While there have been some signs of prices dropping, they're still more than 10% higher than they were at this point last year.

Fannie Mae also recently published their housing forecast for August 2022, and they are anticipating that 30-year fixed mortgage interest rates will fall to an average of 4.5% next year.

If you are considering buying a home, hearing this news might make you want to put off your homebuying plans until rates drop. But is that really the smartest strategy?

Should You Wait to Buy A Home?

In an environment like this, some prospective home buyers will decide to wait things out and buy a house when rates drop and affordability levels out.

If you are not completely priced out of the housing market, now is still a good time to try to buy a home. The market for homes is rapidly changing, and buyers can take advantage of the current inventory with less competition. You can lock in a rate now, purchase the home, and refinance in the future when rates go lower.

Keep in mind that mortgage rates may only go higher in the coming months leading up to a likely recession. That means it may be wise to lock in a rate now and claim a home sooner rather than risking even costlier financing in the future. You will likely pay more next year for the same home, regardless of whether or not we are still in a bidding war market.

Additionally, deferring your home purchase to 2023 or beyond could lead to missing out on the perfect home in your desired location. Housing inventory is still low, and demand is only going to keep increasing as more millennials come into their peak homebuying years.

5 Steps You Can Take To Prepare To Buy a Home

Whether or not you should wait to buy a home depends on your financial situation and life goals. While there's no guarantee buying a home will be easier or cheaper next year, we understand that it might just not be possible for you to afford a home in this market.

So while you're waiting, taking the necessary steps to improve your finances and better your odds at securing the home you want is a smart strategy.

Here are 5 steps you can take now to prepare to buy a home when the time is right.

1. Talk to a loan officer (even if you're not ready to buy)

So many buyers wait to purchase because they think they know how much they would qualify for – but they really don't.

By talking with a trusted mortgage advisor who understands your financial position, you will be better prepared to take the necessary steps to get the best loan terms when the time is right for you to start the buying process.

An experienced loan officer can review all aspects of your financial picture and provide you with steps to improve what you need to. They can walk you through finding sources for a down payment, help you raise your credit score, and suggest ways to reduce your monthly qualifying debt.

2. Choose a loan program

Your mortgage advisor can also help you explore different loan programs you may be eligible for, including a conventional loan, FHA loan, USDA loan, or VA loan.

Each loan type has different requirements to qualify. For instance, conforming loans allow just 3% down payment while USDA and VA loans require no money down at all. These loan programs also have different minimum credit score qualifications.

Knowing which loan program is the best fit for you will help you plan and save accordingly.

3. Start saving

The more you save for a down payment, the more flexibility your lender has to work with you on other parts of the process. The earlier you start saving, the better off you'll be.

Ideally, you want to save at least 20% to avoid paying private mortgage insurance (PMI) and qualify for the best loan offers. However, some loan programs, like an FHA loan, can get you financing for as little as 3.5% down. If you qualify for a VA or USDA loan, no down payment is required.

4. Pay down existing debts

If you have extra cash and can afford it, paying down balances on credit cards, student loans, auto loans, and other debt is a good idea.

Paying off debts and reducing credit card balances can also help improve your credit score, which may open up new loan options and earn you a lower mortgage interest rate. Make sure to check with your mortgage advisor first, however, because sometimes having extra cash for closing is an even better plan.

5. Start improving your credit score

Every loan program has its own minimum credit score requirements. It's a smart strategy to consult with your mortgage advisor on your current score and how much you need to improve it to qualify for a particular loan program.

You can often qualify for a better loan or lower your interest rate by improving your credit score. Even small improvements can help your mortgage application.

If you're planning to buy a house, it's very important to avoid opening any new credit accounts or taking on additional loans. New payments will likely hurt your credit score and increase your debt load, which will decrease the amount of house you can qualify for.

The Bottom Line

We understand high rates may make housing completely unaffordable for you right now. However, if you are able to afford a mortgage payment today, you will be much better off buying now than waiting until rates drop.

Competition is lower than it has been in years, and sellers are much more willing to negotiate. If you find a home you love and that you can afford, start the buying process now so you can start building wealth through equity, and then refinance to a lower rate when the time is right.

Want to learn more? Please schedule a call today!

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