REAL ESTATE EDUCATION SERIES

RE/MAX Properties

Buying a Home When Mortgage Rates Are Higher

Affordability first - opportunity depends on the property

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A higher mortgage rate does not automatically make buying a mistake, but it raises the cost of borrowing. Whether a purchase makes sense depends on the price, your finances, local conditions, and how long you expect to own. There is no single rate threshold that makes every purchase good or bad.

1 Start with the full cost of ownership

Budget for principal and interest, property taxes, insurance, any mortgage insurance, HOA charges, utilities, maintenance, and repairs. Include closing and moving costs and preserve emergency reserves. Your lender's maximum approval is not necessarily your comfortable spending limit. Test the budget against higher expenses or a temporary loss of income.

2 Separate a higher rate from a better investment

Higher rates do not inherently create higher investment returns or guarantee appreciation. They can reduce buyer purchasing power and put pressure on prices, but local supply, jobs, property condition, and demand also matter. Avoid assuming that higher rates prove either a strong economy or an approaching downturn.

3 Look for property-specific negotiating opportunities

If competition has eased for a particular listing, there may be room to discuss price, repairs, closing costs, or a seller-funded buydown. That leverage is not universal: some neighborhoods and price ranges remain competitive. Review comparable sales and the property's listing history with Doug before deciding what to offer.

4 Understand fixed rates and adjustable rates

A standard fully amortizing fixed-rate loan keeps scheduled principal and interest stable; taxes, insurance, and other costs can still change. An adjustable-rate mortgage may start lower but later reset under its index, margin, and caps. Ask for payment scenarios at the allowed maximum, and do not rely on selling or refinancing before adjustment.

5 Shop the loan as carefully as the home

Compare Loan Estimates for the same loan type, term, and points or credits, obtained close together in time. Review rate, APR, lender charges, cash needed, and rate-lock terms. A lower advertised rate may require more upfront cost. Ask which assumptions and conditions could change your pricing or approval.

Easy payment comparison - hypothetical, not a rate quote

$400,000 loan, 30-year term, fixed rate, 360 monthly payments:
6%: about $2,398/month | 8%: about $2,935/month
The 8% payment is about **$537 more per month**. Principal and interest only; taxes, insurance, HOA charges, fees, and mortgage insurance are excluded.

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Compare options without depending on a future rate drop

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A workable purchase should stand on the terms available to you at closing. Future rate changes, refinancing, resale value, and rental income are uncertain. Consider several scenarios rather than building your plan around the most optimistic outcome.

6 Ask for a written cost-benefit analysis of points

Discount points buy a lower rate in exchange for an upfront charge. One point equals 1% of the loan amount, but the rate reduction varies. Compare loans with and without points over likely holding periods. A simple screen: $6,000 in extra cost divided by $150 monthly savings is 40 months; a full analysis also considers cash needs and loan balances.

7 Distinguish temporary relief from a permanent reduction

A temporary buydown subsidizes early payments; it does not permanently lower the note rate. Obtain the complete payment schedule and confirm you can afford the payment after the subsidy ends. Compare a seller or builder credit toward a buydown with a price reduction or other closing costs. Loan-program limits and lender approval apply.

8 Treat refinancing as an option, not the rescue plan

Rates may not fall, and later qualification depends on income, credit, equity, property value, and available loan programs. Refinancing has costs, even when rolled into the balance or offset through pricing. If it becomes attractive, compare total costs and interest over your remaining timeline; restarting a longer term can increase lifetime interest.

9 For a rental, stress-test cash flow

Use supportable rents and allow for vacancy, taxes, insurance, management, maintenance, HOA charges, and major replacements. Subtract debt payments to estimate cash flow. Test lower rent, unexpected repairs, and a slow resale. Higher borrowing costs can reduce cash flow and cash-on-cash returns; appreciation and tax benefits are not substitutes for reserves.

10 Compare buying now with waiting

Buying may fit when the home meets long-term needs and the full cost is sustainable. Waiting may help if cash reserves are thin, income is uncertain, or a move is likely soon. Compare rent, savings, ownership costs, and transaction costs. Waiting does not guarantee lower rates or prices, and buying does not guarantee a profit.

Before committing, answer these questions

Can I afford the full payment without refinancing? What cash remains after closing? Which price or financing concession helps most? How does the plan perform with higher costs or lower income? Ask Doug to evaluate the property and negotiating options, and your lender to prepare loan comparisons.

Adapted and corrected from the supplied document. Resources: CFPB points and lender credits; Loan Estimate guide; higher-rate financing options. Examples are illustrative. Educational information, not individualized lending, investment, tax, or legal advice.

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