

# THINGS A REAL ESTATE AGENT NEEDS TO CONSIDER

FALL 2022

*Strategies to help sellers  
meet more buyers and make  
more buyers homeowners.*

 **MARTINI**  
MORTGAGE GROUP

 **Gold Star**  
Mortgage Financial Group

In real estate, there is no such thing as a 'good' or 'bad' market, there are just markets. During the pandemic-era, home prices appreciated at an unprecedented rate. This home price growth was fueled by historic low mortgage rates and limited supply of homes for sale. Today, we are living in a post pandemic-era and things have changed. Mortgage rates have fluctuated upward and are no longer discounted. Right now mortgage rates are drifting towards their 50-year average. Right now, home appreciation is normalizing not depreciating. Oh by the way, normalizing is not a bad thing.

We believe, many think that real estate is at an inflection point, we do not! We truly believe that real estate at this moment, represents an unprecedented opportunity and that is why **Logan Martini** and myself have curated the special resource called 'Things a Real Estate Agent Needs to Consider' — a simple guide to financing solutions in this current real estate market.

In any real estate market, especially in this market, the real estate professional and the mortgage strategist need to be a sherpa guiding the families about the opportunity, not selling. This is what we do here at the Martini Mortgage Group.

Now more than ever, since the current mortgage rate environment has significantly increased to a level that many Gen-X and Millennial homebuyers have never seen in in their lifetime, a true partnership with a mortgage strategist is not just nice to have, it is required for a real estate professional since the families we all serve, all deserve clarity of the traditional and innovative financing options available with certainty.

We organized this guide to simple provide a glimpse of the innovative strategies needed to help both buyers and sellers in this current market. Know that we are here to help you understand them in more detail and also available to serve the families you are helping clearly understand the remarkable real estate opportunity.

Enjoy!



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# CONTENTS

4

**AS A  
PRIMER**

11

**INTERESTED  
PARTIES  
CONTRIBUTIONS**

7

**COŞT OF  
WAITING**



13

**HOW BUYERS  
AND SELLERS BENEFIT  
FROM BUYDOWNS**

8

**MARKET  
EDUCATION**

15

**1-1  
Buydown**

9

**TAX**



16

**2-1  
Buydown**

17

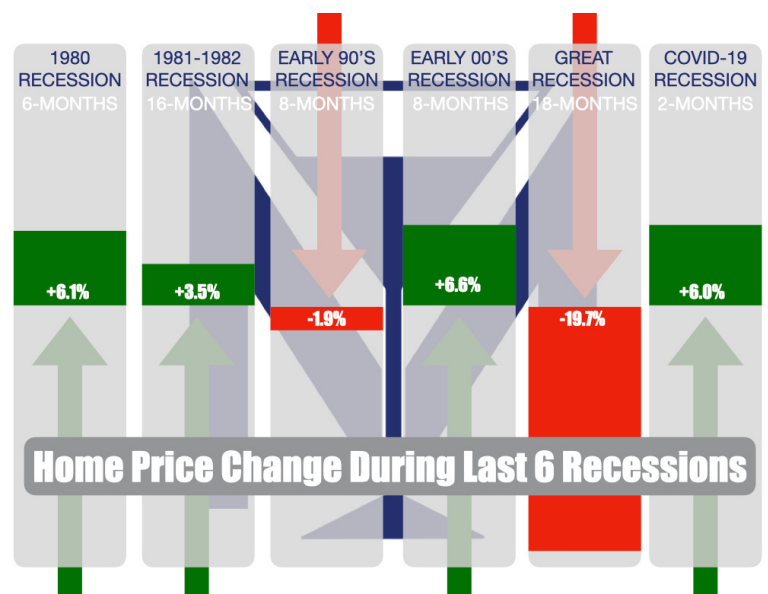
**3-2-1  
Buydown**

## AS A PRIMER ...

According to the 2022 Home Buyers and Sellers Generational Trends Report, 65% of homebuyers are from the following 2 generations: Gen X and Millennials (older & younger). Both Gen X and Millennials were either part of or had someone they cared about that were impacted by the housing crisis that occurred. It's important to note, the housing crisis caused 'The Great Recession', the recession did not cause the housing crisis.

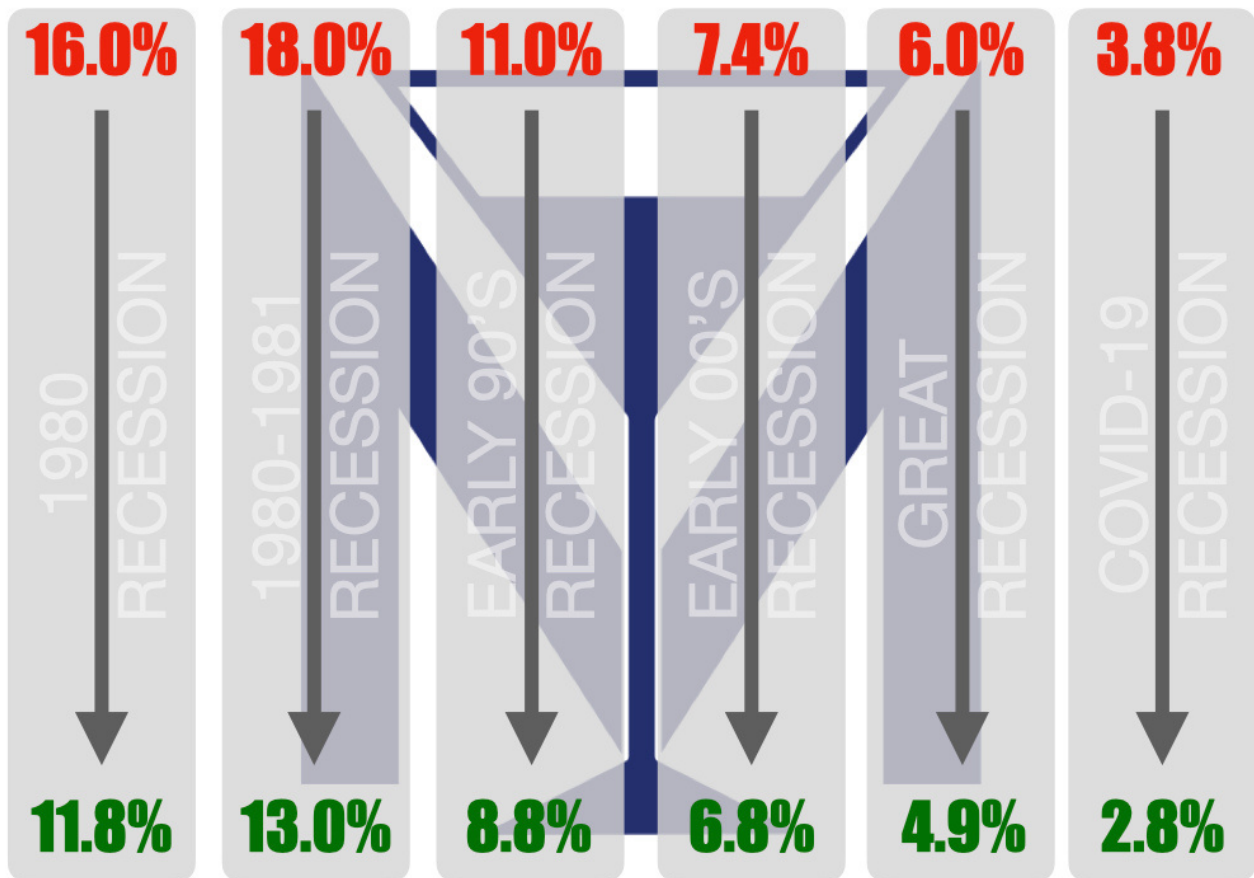
At the time of publication, **it is likely we are in a recession**. Recessions are part of a healthy economic cycle. Again, it is critical to highlight to a homebuyer and/or home seller that a recession does not mean housing crisis.

In modern history (i.e. since 1980), in the U.S. there have been 6 recessions. 'The Great Recession' was 1 of the 6 recessions which lasted 18-months and home values declined -19.7%. Since 'The Great Recession' is an anomaly caused by external events which are likely not to be repeated, if you remove it then during 4 out of the last 5 recessions home values actually increased over +4%.



During a recession, inflation rears its ugly head. At the time of publication, inflation is at a level not seen for decades. Perhaps the period of ever-rising price might be over today however it is likely that high inflation will stick around for a bit longer. During periods of recession, homeownership is a great hedge against inflation. Yes, homeownership helps combat the rising cost of inflation because 1) homeownership stabilizes a families biggest monthly expense (i.e. housing cost), 2) homeownership allows one to invest in an asset that outperforms inflation. Bold statement, let us look at the data for the last 2-years...in 2020, the average inflation rate was 1.4% and the average home price appreciation was 9.2%....in 2021, the average inflation rate was 7% and the average home price appreciation was 15%.

Over the past 6 recessions, mortgage rates have fallen an average of 2.35 percentage points from the peak seen during the recession to the trough.



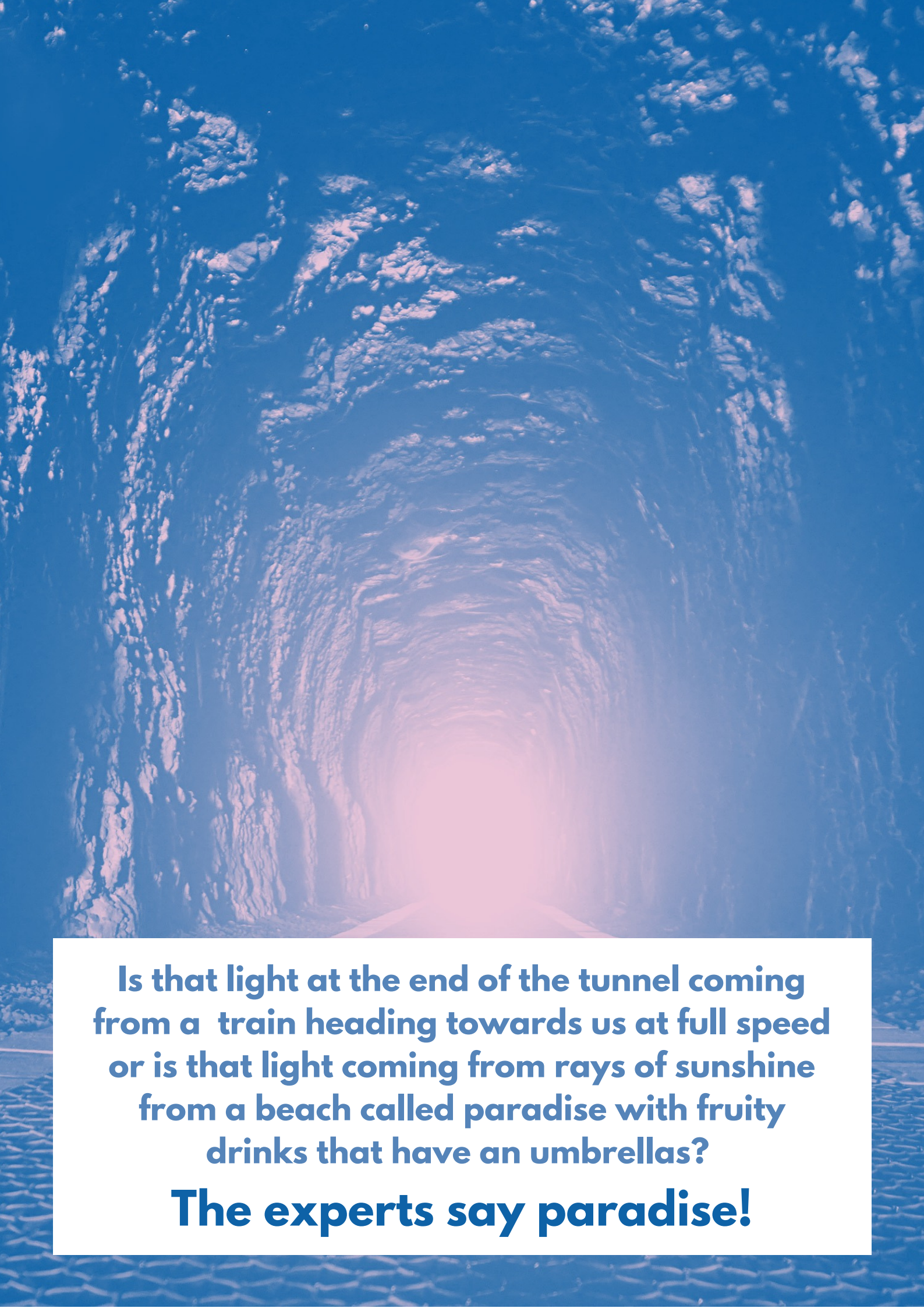
Home price appreciation is expected to continue to increase year-over-year-over-year. Granted a home is forecasted to appreciate at a typical pace however **with a typical pace a homeowner is still going to gain significant equity.** In addition, mortgage rates are going to keep moving upward however based on history there is a very likely opportunity to refinance the mortgage — history has proven this 6 out of 6 times.

The **'marry the home and date the rate'** is the strategy to deploy today with homebuyers to seize the current real estate opportunity and to manage the current mortgage rate environment.



*Marry the Home  
and  
Date the Rate*





**Is that light at the end of the tunnel coming from a train heading towards us at full speed or is that light coming from rays of sunshine from a beach called paradise with fruity drinks that have an umbrellas?**

**The experts say paradise!**

# COST OF WAITING

## **Waiting to buy a home could cost a buyer over \$100,000**

The cost of waiting is not a concept, it is a real thing and it is the obligation, responsibility and duty of real estate professionals to properly communicate it to all. To help explain, let me share two Martini Mortgage Group reasons why:

### **POTENTIAL INCREASE IN HOME PRICES**

During the past year, home prices have risen by approximately 15%+ in many markets. This means that it will likely cost a homebuyer \$575,000 to buy a home they could have purchased a year ago for \$500,000.

While 15%+ annual increases in home prices are unlikely moving forward, a more reasonable scenario is that home prices may rise by 5%+ in the coming year. It is the opinion of the Martini Mortgage Group that supply is likely to remain low and demand is likely to remain high. If home prices only go up by 5%, a homebuyer may lose another \$30,000+/- by just waiting to buy. Simply put, this is because a homebuyer would likely need to pay \$603,750 a year from now for a home they could have purchased today for \$575,000.

### **LIKELY INCREASE IN INTEREST RATES**

Mortgage interest rates have already gone up by over 3% since earlier this year when the Federal Reserve announced it would be phasing out and unwinding its pandemic-era stimulus programs. This upward movement in 2022 means the monthly payment for a \$500,000 mortgage has already gone up more than \$899 a month.

As inflation remains elevated with levels not seen in decades, many economists and the Martini Mortgage Group anticipate mortgage rates will move higher. If homebuyers continue to wait to buy a home until that their monthly payment may quickly become unaffordable and your purchasing power may go down significantly, oh by the way, not to mention the long-term economic impact.

**FACT**, another 1% increase in interest rates on a \$500,000 mortgage could cost you over \$100,000 over the life of your home loan.

# OVERALL MARKET EDUCATION



## There is never a substitute for education.

The news today is very sensationalized and on the rare occasion the headline may be factually correct it does not tell the whole story. Sadly 6 out of 10 articles shared are shared without the sender actually reading the article. To properly communicate the facts about the current real estate and mortgage markets, every season, **Kevin Martini** and **Logan Martini** assemble the Martini Buyer Guide to simply and effectively communicate the current homebuyer opportunity that is present. It is completely free and real estate agents should internalize the information in the pages of the Martini Buyer Guide and share it with the families they are and/or want to work with.

**[MartiniBuyerGuide.com](https://MartiniBuyerGuide.com)**

# AFTER TAX COST OF MORTGAGE

As a real estate professional, you understand there may be substantial tax benefits to owning a home and having a mortgage however do the families you work with really understand too? **FACT: Homeowners who itemize tax deductions can deduct the interest on up to \$750,000 of mortgage balances used to buy, build or improve a qualified home** (see IRS Publication 916).

Most homebuyers don't understand this and are surprised that their cost of borrowing is significantly reduced by this tax benefit. Don't just share this benefit of homeownership, illustrate the economic benefit to your homebuyers. Here is the Martini Mortgage Group 3-step process to help calculate the impact of your homebuyers tax deduction.

## STEP ONE Marginal Tax Bracket

What is the marginal tax bracket of your homebuyer? A marginal tax rate is the rate that applies to your last dollar of taxable income. In other words, the highest bracket homebuyer's income falls into. At the time of publication, there are seven federal income tax brackets.

Determine how your client filed (i.e. a single filer or married filing jointly) and use the charts below to determine their marginal tax bracket.

Single filers

10%	12%	22%	24%	32%	35%	37%
\$0 to \$9,950	\$9,921 to \$40,525	\$40,526 to \$86,375	\$86,376 to \$164,926	\$164,926 to \$209,425	\$209,426 to \$523,600	\$523,601 or more

Married, filing jointly

10%	12%	22%	24%	32%	35%	37%
\$0 to \$19,900	\$19,901 to \$81,050	\$81,051 to \$172,750	\$172,751 to \$329,850	\$329,851 to \$418,850	\$418,851 to \$628,300	\$628,301 or more

## STEP TWO Mortgage Rate

You need to know what their mortgage rate is. Since this exercise to give an idea only, you can input the current market rate.

## STEP THREE After-Tax Benefit Math

"Step Three has 3 steps..."

- #1 Express the tax bracket as decimal
- #2 Subtract the decimal from the whole number one
- #3 Multiple that number by the the current or actual mortgage rate

## EXAMPLE ASSUMING 24% Bracket & 6.5% Rate

#1 Express the tax bracket as decimal ... for this example we are assuming a 24% marginal tax bracket so in decimal form that is expressed as 0.24

#2 Subtract the decimal from the whole number one ... for this example we would take one minus the marginal tax bracket expressed as a decimal hence,  $1 - 0.24 = 0.76$

#3 Multiple that number by the the current or actual mortgage rate ... for this example we are using a mortgage rate of 6.5% so  $6.5 \times 0.76 = 4.94$

**In this example, a 6.5%  
mortgage costs ONLY 4.94%  
after-tax for someone in a  
24% tax bracket.**

# Interested Party Contributions a.k.a. 'Concessions'

A unique way that more buyers can buy and more sellers can meet more buyers is by interested party contributions (a.k.a. concessions). Fannie Mae defines concessions like so:

**"...costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest ..."**

There are limits to the amount of concessions a buyer can receive based on their occupancy (e.g. primary residence or investment property) and the type of loan the buyer is securing (e.g. agency or government). With Fannie Mae and Freddie Mac, the maximum seller contribution depends on the occupancy and Loan-To-Value (LTV), see matrix below:

<b>Occupancy Type</b>	<b>Loan-To Value (LTV)</b>	<b>Maximum IPC</b>
Principal residence or second home	Greater than 90%	<b>3 Percent</b>
	75.01% – 90%	<b>6 Percent</b>
	75% or less	<b>9 Percent</b>
Investment Property	ALL LTV's	<b>2 Percent</b>

Allowable concessions depend on the loan program, for FHA Home Loans and Rural Development Home Loans (a.k.a. the USDA Home Loan) a concession is limited to 6% of sales price. The Department of Veteran Affairs permits seller concessions for a VA Home Loan up to 4% of the loan amount.



"I do not believe that it is just a place to live or just a loan. It is **YOUR** money and it is **YOUR** home! A key to wealth building is homeownership. I believe it is my responsibility, obligation and duty to provide clarity on the mortgage process and certainty before you find the right place to call home and when you are in your home my job is not over. I will monitor your home loan and the markets so you do not have to."

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# BUYDOWN

## How Buyers and Sellers benefit from buydowns

### WHAT IS A 'SELLER-PAID BUYDOWN'?

A 'Seller-Paid Buydown' is where the seller pays a fee at the closing to reduce the interest rate on the buyer's mortgage temporarily. This results in temporarily lowering the buyer's monthly payment and making the home more affordable for a homebuyer today.

### WHAT TYPE OF 'SELLER-PAID BUYDOWN' ARE AVAILABLE TODAY?

There are three 'Seller-Paid Buydown' strategies offered by the Martini Mortgage Group: 1-1 Buydown, 2-1 Buydown, 3-2-1 Buydown.

#### 1-1 BUYDOWN

Seller pays a fee at closing (the fee must be within the Interested Parties Contribution based on the loan the homebuyer is securing) to reduce the interest rate on the homebuyer's mortgage by 1% in year 1.

#### 2-1 BUYDOWN

Seller pays a fee at closing (the fee must be within the Interested Parties Contribution based on the loan the homebuyer is securing) reduce the interest rate on the buyer's mortgage by 2% in year 1 and 1% in year 2.

#### 3-2-1 BUYDOWN

Seller pays a fee at closing (the fee must be within the Interested Parties Contribution based on the loan the homebuyer is securing) reduce the interest rate on the buyer's mortgage by 3% in year 1, 2% in year 2 and 1% in year 3.

## **BENEFIT OF BUYDOWN FOR A HOMEBUYER?**

A buydown reduces the buyer's interest rate and monthly payment during the first few years(s) of homeownership, making the home more affordable for homebuyers. It has a much greater impact on the homebuyer's monthly payment than reducing the list price of the home.

## **BENEFIT OF BUYDOWN FOR A HOME SELLER?**

A buydown could be a great negotiating tool because a greater percentage of homes listed for sale in today's market are seeing price reductions. Not only does a buydown makes a home more affordable to a wider range of buyers who may have otherwise been priced out of the market, it also tends to cost less than a price reduction.

A seller offering to pay for a buydown could give provide a competitive advantage vs. other homes listed for sale in today's changing market. This is because interest rates have gone up significantly this year, creating an affordability crisis for many potential buyers. As an added benefit, a buydown could also save a seller the aggravation and financial loss of having to significantly reduce your list price in order to compete with other homes that may be listed for a lower price.

**"The best way a real estate agent can gain a competitive advantage in today's rapidly changing market is to work with the Martini Mortgage Group. We don't just educate, we guide the families we serve also guide through their options while proving them certainty."**

**Certified Mortgage Advisor, Kevin Martini**

## EXAMPLE FOR ILLUSTRATION ONLY

Sale Price = \$400,000 | 20% down | 30-Year Fixed @ 7%  
Principal & Interest (P&I) ONLY

# a 1-1 BUYDOWN example

If homebuyer purchased \$400,000 home and put 20% down with a 30-year fixed rate of 7%, as mentioned in this example for illustration ONLY, they would have a P&I payment of \$2,128.97. If the seller reduced the price by \$25,000 to \$375,000. The monthly economic benefit to the buyer would be \$133.06 since the P&I on a 30-year fixed at 7% with a home having a \$375,000 purchase price is \$1,995.91.

However, if the seller offered (or the homebuyer requested) at list price (e.g. \$400,000) a seller funded 1-1 Buydown the rate would be reduced by 1% for the first year (i.e. 6% in this example for illustration ONLY). The P&I for the first year would have a P&I \$1,918.56 and that is a savings of \$210.41 a month to the homebuyer. In addition, again in this example for illustration ONLY, this would save the seller \$22,475 since the cost of the 1-1 Buydown is \$2,525.

1-1 Buydown	LIST PRICE @ 400K	PRICE REDUCED to \$375K	LIST PRICE with 1-1 Buydown
P&I YEAR 1	\$2,129	\$1,996	\$1,919
Monthly Savings	-	\$133	\$210

*"In today's market both sellers and buyers need to evaluate the best approach."*

**Senior Mortgage Strategist , Logan Martini**

**EXAMPLE FOR ILLUSTRATION ONLY**

Sale Price = \$400,000 | 20% down | 30-Year Fixed @ 7%  
Principal & Interest (P&I) ONLY

**a 2-1 BUYDOWN example**

<b>2-1 Buydown</b>	<b>LIST PRICE @ 400K</b>	<b>PRICE REDUCED to \$375K</b>	<b>LIST PRICE with 2-1 Buydown</b>
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**YEAR 1**

<b>P&amp;I</b>	<b>\$2,129</b>	<b>\$1,996</b>	<b>\$1,718</b>
<b>Monthly Savings</b>	<b>-</b>	<b>\$133</b>	<b>\$411</b>

**YEAR 2**

<b>P&amp;I</b>	<b>\$2,129</b>	<b>\$1,996</b>	<b>\$1,919</b>
<b>Monthly Savings</b>	<b>-</b>	<b>\$133</b>	<b>\$210</b>

With a 2-1 Buydown with the Martini Mortgage Group, in this example for illustration ONLY, the cost to the seller is \$7,459 and that is less expensive than a \$25,000 price reduction.

To a homebuyer, there is substantial monthly savings in year 1 and year 2 as compared to the price reduction. As an added bonus, the unused buydown is credited in the event of refinance or payoff. The unused credit is significant since Fannie Mae projects mortgage rates to drop into the 4's next year. This is added confirmation now is the time to "Marry the home and date the rate."

**EXAMPLE FOR ILLUSTRATION ONLY**

Sale Price = \$400,000 | 20% down | 30-Year Fixed @ 7%  
Principal & Interest (P&I) ONLY

**a 3-2-1 BUYDOWN example**

<b>3-1 Buydown</b>	<b>LIST PRICE @ 400K</b>	<b>PRICE REDUCED to \$375K</b>	<b>LIST PRICE with 3-2-1 Buydown</b>
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**YEAR 1**

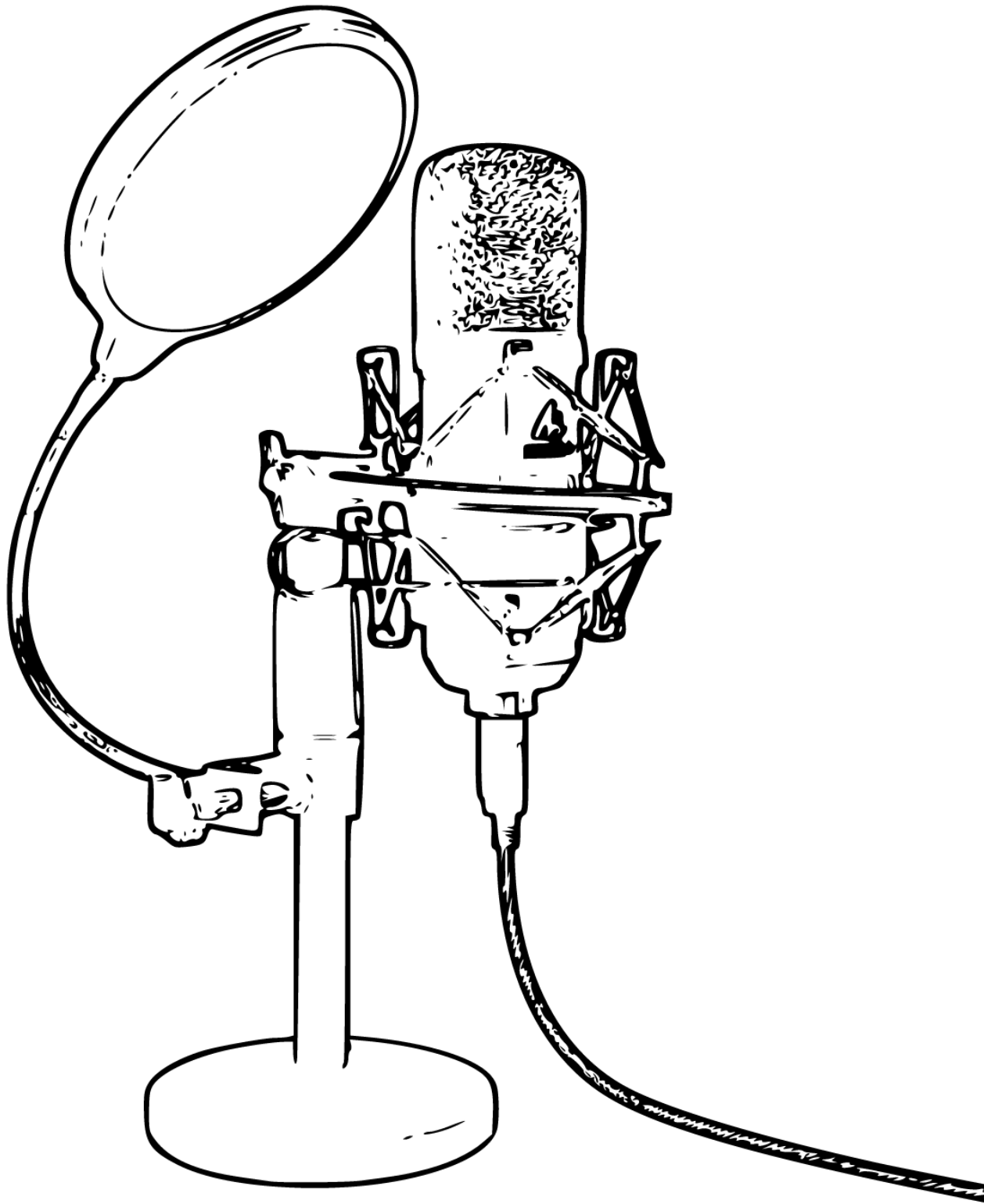
<b>P&amp;I</b>	<b>\$2,129</b>	<b>\$1,996</b>	<b>\$1,528</b>
<b>Monthly Savings</b>	<b>-</b>	<b>\$133</b>	<b>\$601</b>

**YEAR 2**

<b>P&amp;I</b>	<b>\$2,129</b>	<b>\$1,996</b>	<b>\$1,718</b>
<b>Monthly Savings</b>	<b>-</b>	<b>\$133</b>	<b>\$411</b>

**YEAR 3**

<b>P&amp;I</b>	<b>\$2,219</b>	<b>\$1,996</b>	<b>\$1,919</b>
<b>Monthly Savings</b>	<b>-</b>	<b>\$133</b>	<b>\$210</b>



Fresh episodes of the Martini Mortgage Podcast are curated every week because there is never a substitute for education about what is going in the mortgage markets and real estate arena. Available on all streaming services.



**[MartiniMortgagePodcast.com](https://MartiniMortgagePodcast.com)**

# Let's Chat...

*more about these strategies to help more sellers meet more buyers and make more buyers homeowners..*

*We'd love to talk with you about what you've read in the inaugural issue of the 'Things a Real Estate Agent Needs to Consider' and help the families you serve on their path to buying your a home. Our number is (919) 238-4934 and we look forward to working with you.*



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