

# Rapid City Real Estate Update

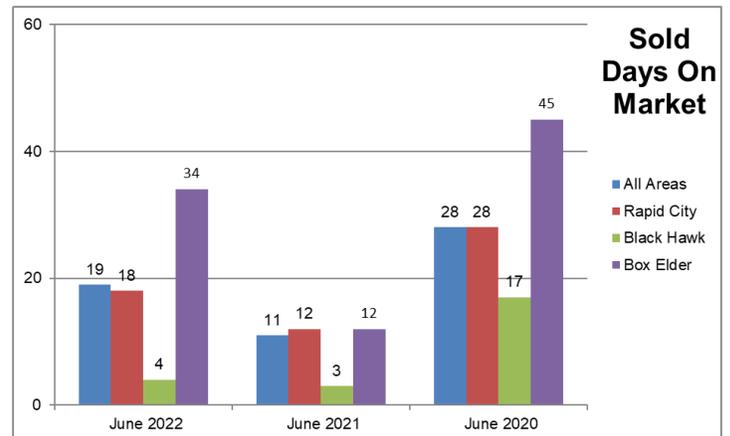
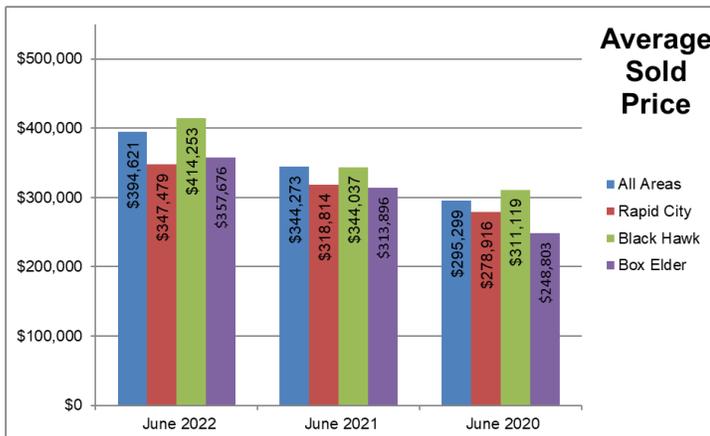
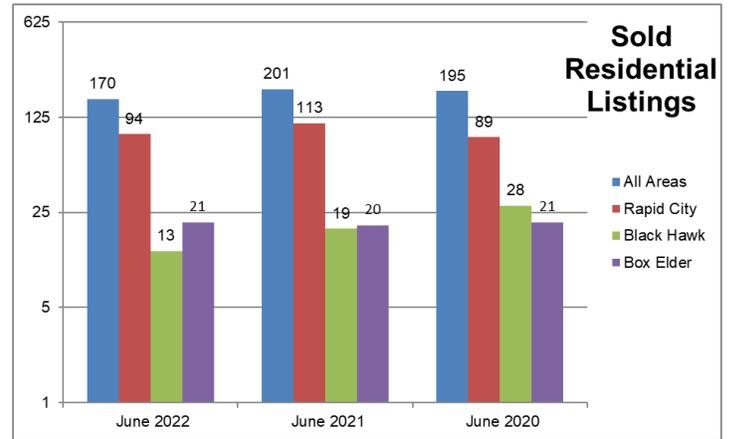
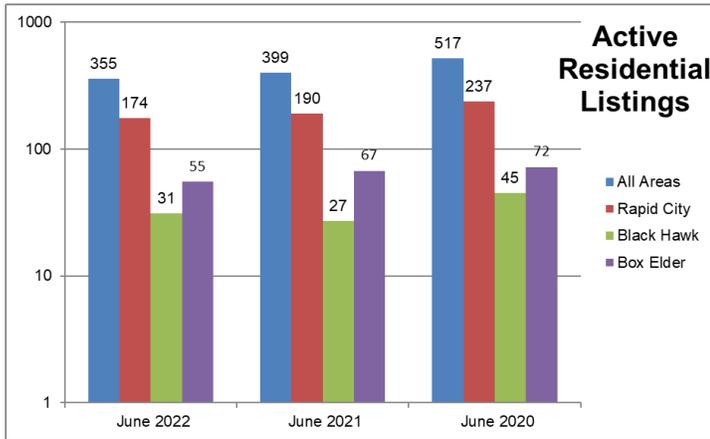


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# Rapid City & Area Market Conditions For June 2022



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## The Top Reason People Get Turned Down For Mortgages

The idea of getting turned down for a mortgage is anxiety-producing for many people. Despite having risen significantly in the past few weeks, mortgage rates are still somewhat low, and so increasingly, people are looking to jump into the market before they go much higher.

That leaves them wondering whether or not they'll be approved.

Only around 8% of mortgage applications were denied in 2020, according to a NerdWallet study. However, there were 58,000 more denials in 2020 than in 2019. Some of that was due to the up-tick in applications in 2020.

So what was the number one reason for denials?

### The Leading Reason for Mortgage Denials

The most common reason mortgages are denied is because of what's described as an unfavorable debt-to-income ratio or DTI. Data shows that DTI is the reason for 32% of all denials.

That's not necessarily a new phenomenon either.

The debt-to-income ratio is a historical reason for mortgage denials, followed in second place by low credit scores. Low credit scores make up around 26% of mortgage denials.

### What is Your DTI?

Your debt-to-income ratio is a calculation of all of your monthly debt payments. Those are added together and include credit card payments, auto, personal and student loans, child support, and your current mortgage. Once those totals are added together, it's divided by your gross monthly income.

Most lenders want borrowers with a DTI at or below 36%, although there can be some variance.

If you were to earn \$7,000 in gross monthly income and your monthly debt is \$2,500, this would be a DTI ratio of around 36%. would be a DTI ratio of around 36%.

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## When Should You Lower Your Home's Listing Price?

As the U.S. housing market appears to finally be cooling somewhat, some buyers are breathing a sigh of relief. Home sellers are frantically entering the market, hoping to take advantage of the remnants of the pricing boom.

For the four weeks ending on May 22, almost 1 in 5 sellers dropped the price of their home. It's the highest rate since 2019. During the same four-week period, there were 13% fewer "homes for sale" searches on Google, and there was a 12% year-over-year decline in tours and related services from agents on Redfin.

Sellers are still asking a premium for homes, with the median asking price up 17.8% year-over-year. However, sellers are also starting to see the writing on the wall as buyers are more cost-conscious with rising interest rates. Thus the price drops.

If you're a seller with a home on the market, how do you know it's time to lower the price?

### Price Is Usually the Reason Your Home Is Still On the Market

If your home has been on the market for a while and it's not getting the attention you think it should, or you're not getting offers, it's frustrating. More often than not, according to real estate professionals, the issue is the price.

Buyers can overlook many other factors if they feel like the price is right.

Some of the signs your price might be too high include getting little traffic and no offers. You might also get good traffic, but the offers you're getting are a lowball. A third sign of thinking about having good traffic but negative reactions from potential buyers. If buyers consistently make comments about the price, it might be time to pay attention to what they're saying.

### When To Lower the Price

If you think you should reduce the price of your home, you should do it quickly. Usually,

within two weeks of initially putting it on the market is ideal, especially with inventory remaining low. As a rule, you'll see the most activity within the first 21 days of your home going on the market, so make sure you're taking advantage.

You'll also want to look at some of the indicators in the housing market where you are, like the average days on the market.

One guideline that some real estate pros recommend is a price adjustment after a house is on the market for ten days.

There are marketing steps your realtor should take before a price reduction. For example, maybe they need to revisit your photos and ensure they're good enough. The home also needs to be listed in multiple places, and you should address buyer feedback.

### What to Know About Price Cuts

No one wants to make a price reduction, but the reality is that you may even have to do it more than once. The more your days on the market go up your potential need for price adjustments increases.

It's advisable to make no more than three price reductions. If you go beyond that, it will start to become a red flag to buyers.

You also want to be careful and strategic in how much you reduce the price. For example, if you priced high to start with, maybe you reduce it by around 4% to no more than 9%. If your initial price was comparable to market value, you might need an incremental cut.

Some real estate agents think it's better to go ahead and reduce your home by a significant enough amount initially, so you don't have to do it more than once. That's something to talk to your agent about. There is the potential that multiple smaller cuts are just dragging out the process of selling your home, which isn't what you want.

*Courtesy of Realty Times*



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## Why Are Loan Requirements Different For A Rental Property

One might think that a home loan is a home loan. And generally speaking that's correct. Lenders review a loan application and begin the approval process. The lender looks at qualifying income, credit and assets among other things. But overall the process is the same for most all types of home loans. But with a rental property, there are some things that are different when compared to a mortgage for an owner occupied unit.

The first thing one will notice is how much down payment is required for a rental. While a conventional loan asks for a minimum down payment of 5%, and even 3% in some cases, a loan for a rental property can be as high as 20% or more. And, interest rates for rentals are higher compared to a primary residence. Rates can be as much as 1-2% higher for a rental. Further, first time buyers are limited to a primary residence and not eligible to finance a rental as their first buy. A higher credit score will be needed for a rental as well.

So why is that? Why are there differences between loans for a primary residence compared to a rental unit? The answer is due to elevated risk.

The thinking goes like this: if someone gets into some pretty serious financial straits and starts having problems paying the bills, it's the rental unit that will be let go first. The homeowners need a place to live and if push comes to shove, the rental property will go first. If a foreclosure is

in the picture, the primary residence stays and the rental is the one that will be foreclosed upon.

As a side note, these requirements are for conventional mortgages, not government-backed home loans. These types of loans, VA, FHA and USDA programs, absolutely require the property to be occupied. No non-occupant purchases are allowed.

Okay, so how does a lender know whether or not a purchase is going to be a primary residence vs. an investment property? Well, first of all there is a box on the application that asks about the intentions of the purchase. Is the purchase going to be for a home in which to live or is the purchase used for a rental? The question is answered and the appropriate box is checked. Okay, so the next question is, how does a lender verify the loan is used for a primary residence compared to a rental? Good question but the answer is fairly basic. Lenders can find out who lives in the newly purchased unit simply by having someone make a quick stop by the home after the deal is closed, knock on the door and see who answers.

Loan terms for rental properties are a bit more difficult but really not by a whole lot. Lenders need to compensate for the additional risk of financing a rental unit and they can partially offset that additional risk with more down payment and higher rates. Getting rates and terms for a potential rental unit is as easy as picking up the phone and contacting a mortgage loan officer.

*Courtesy of Realty Times*

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### So why is DTI so relevant to lenders?

Lenders want to see the amount of debt a customer can take on before they start to have trouble paying it.

The DTI is how they set the amount they're willing to lend based on what you're reasonably able to afford.

Lenders see the DTI as a very strong risk indicator. If you have too much debt or insufficient income, you're not an ideal borrower in the eyes of a lender. At least in their perception, you'd be adding another payment to a budget already stretched thin.

### What To Do If You're Denied Because of DTI

If your DTI is higher than 36%, there are things you can do.

First, you need to figure out a way to reduce your monthly debt payments. It's optimal if you can also increase your income.

As you're starting to deal with a problematic DTI, begin by first taking on your highest-interest debt. This usually includes things like credit cards. Then, you can move on to any personal loans or car loans.

There are multifaceted benefits of taking steps to improve your DTI. For example, when you're paying off debt, you're also potentially raising your credit score and freeing up some of your income.

The other big factor for denial, as mentioned, is a low credit score.

Before you even start thinking about applying for mortgages, check your credit report to know what you're working with. You need to see your score and know that lenders will assess your history of payments. Lenders tend to like to see scores that are 760 and higher to offer the most competitive interest rates.

Of course, DTI and credit score aren't everything you need to get approved for a mortgage. You also need cash reserves and down payment, and proof of income.

*Courtesy of Realty Times*

## June Real Estate Roundup

Freddie Mac's results of its Primary Mortgage Market Survey® shows that "Fixed mortgage rates have increased by more than two full percentage points since the beginning of the year. The combination of rising rates and high home prices is the likely driver of recent declines in existing home sales. However, in reality many potential homebuyers are still interested in purchasing a home, keeping the market competitive but leveling off the last two years of red-hot activity."

- 30-year fixed-rate mortgage (FRM) averaged 5.81 percent with an average 0.8 points for the week ending May 26, 2022, up from last month when it averaged 5.1 percent. A year ago, at this time, the 30-year FRM averaged 3.02 percent.
- 15-year FRM this week averaged 4.92 percent with an average 0.9 points, up from last month when it averaged 4.31 percent. A year ago, at this time, the 15-year FRM averaged 2.34 percent.
- 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 4.41 percent this week with an average 0.3 points, up from last month when it averaged 4.2 percent. A year ago, at this time, the 5-year ARM averaged 2.53 percent.

*Courtesy Of Realty Times*



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# Black Hills Events

Black Hills Farmers Market  
Every Saturday May - October  
Every Wednesday July - October  
Market Park on Omaha

Food Truck Friday  
Fridays May 6 - July 29: 11:00 AM - 3:00 PM  
Main Street Square, Rapid City

National Impala Show & Shine  
July 17 - 23  
Spearfish

Concert in the Park  
July 20 & 27  
Memorial Park Bandshell, Rapid City

Wild West Wednesdays Rodeos  
July 20 & 27, August 3, 10 & 17  
Hart Ranch

Summer Nights

Miner Music Festival 2022  
Saturday July 23: 12:00 PM - 8:00 PM  
Miner Brewing Company, Hill City

Bierborse Festival  
Saturday July 23: 1:00 PM - 5:00 PM  
Main Street Square, Rapid City

Deadwood's 100th Annual Days of '76  
July 25 - 30  
Deadwood

National Park Fee Free Days  
August 4, September 24 & November 11

Sturgis Motorcycle Rally  
August 5 - 13  
Sturgis

Moonlit Movies at Main Street Square  
July 18 & August 15: 8:00 PM  
Main Street Square, Rapid City

Central Stats Fair  
August 19 - 27