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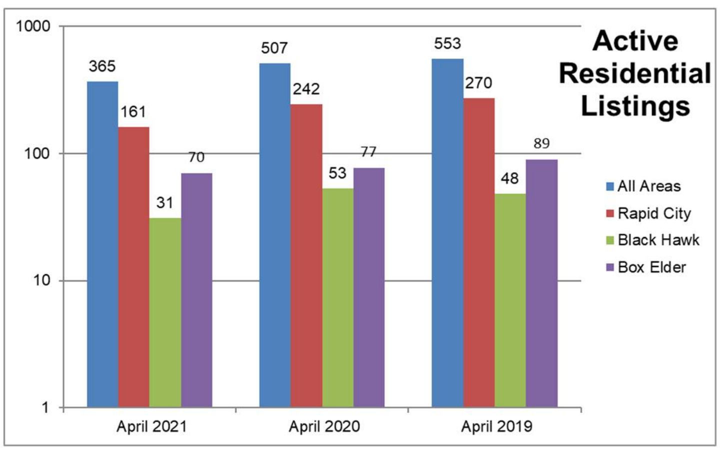
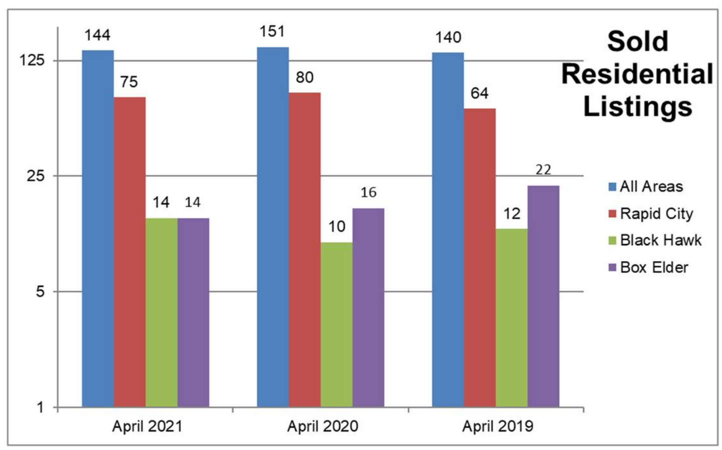
Rapid City Real Estate Update

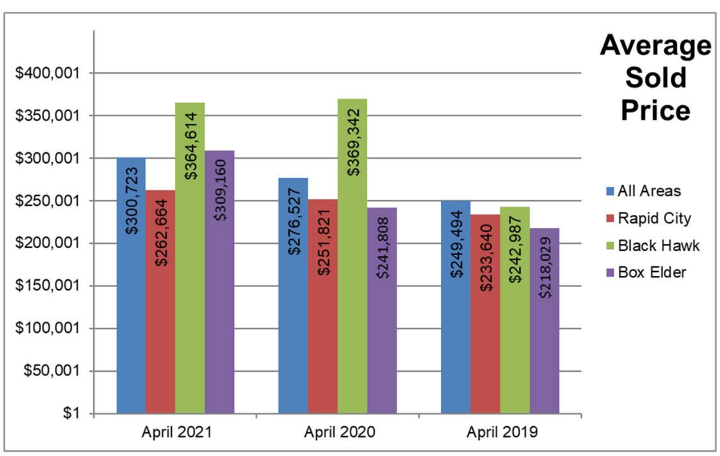
COLDWELL BANKER
BLACK HILLS LEGACY
REAL ESTATE

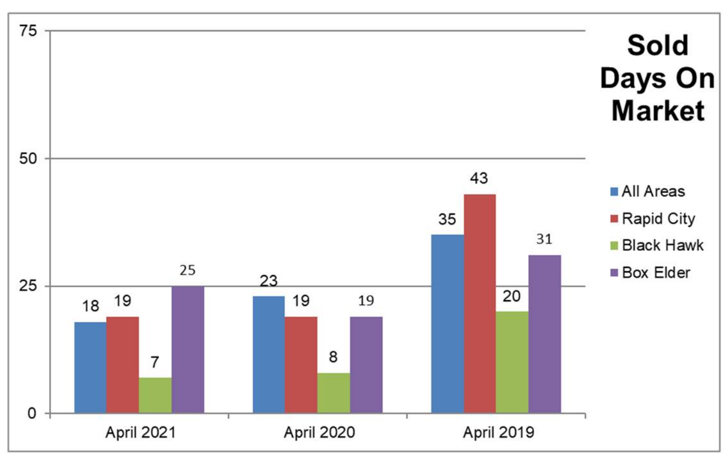
In This Issue

Rapid City & Area Market Conditions For April 2021









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PMI - It's Not A Bad Thing

One of a lender's main jobs is to evaluate risk. If a lender looks at a loan application, what is the risk in making a home loan? How's the credit look? Can the borrowers comfortably afford the new monthly payment? Is the property going to be owner-occupied or will it be a rental? How much down payment is involved? All of these questions and more must be answered before a final approval can be issued. Certainly having good credit is a positive as is affordability. Lenders also view rental properties as a higher risk than an owner-occupied home, thus the higher interest rate and additional down payment for a rental. But the down payment can carry considerable weight. The more down payment a borrower comes to the table with, the less risk for the lender.

It used to be that a minimum down payment could be 20 or 30% or more, depending upon the individual lender. Yet it's obvious that kept a lot of folks out of a home, especially for first time buyers. Yet in the late 1950s, a private company came up with an insurance policy that addressed the hefty down payment issue. Instead of coming to the table with 20% or more for a down payment, a private mortgage insurance policy, or PMI was created. PMI allows consumers to buy and finance a home without a large down payment. Yet sometimes PMI gets a bad rap, as something to be avoided at all costs. That's not the case. PMI isn't a bad thing, it's a good thing.

PMI is called a private mortgage insurance policy because the policy is applied

(continued on page 3)

What To Do When An Appraisal Comes In Low

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When someone is buying a home and they're going to use financing in the form of a mortgage, they need an appraisal to cement the deal. Before a bank is going to extend credit, they want to make sure they're not giving someone a loan that's more than the fair market value of the house.

That's where an appraiser will enter the scene. An appraiser will give their unbiased opinion on the value of the home.

If the appraisal is less than what your offer is, then you may feel frustrated and even a little devastated.

This isn't an uncommon situation, however. One of the big reasons for contingency issues is the appraisal.

An appraisal goes over the condition of a property, and they have to be certified in the state where they're working. Appraisers look at a wide variety of features like the year the home was built, zoning details for the neighborhood, construction details like the type of foundation, and the utilities and amenities.

An appraiser will come up with a report for the lender in around a week or so, but for VA and FHA loans, the appraisal report can take longer to finish because it has to be more detailed. There are a lot of reasons an appraisal can come in low. A lack of comps can be one reason. For example, the market might be moving faster than appraisers, so home values in a hot market could be going up rapidly, but appraisals might not be matching that pace. There's also an issue if for example there have been a lot of remodels in a neighborhood to bring the overall value of the comps up.

So what if your appraisal comes in low? What can you do?

Cover the Difference in Cash

If you're worried a pending sale won't go through, both a buyer and a seller have options.
The buyer might be able to make up for the difference in the appraised value and the sale price using cash.

The reason a lender even cares about the appraisal value is that it impacts the loan-to-value ratio.

In some instances, a lender won't let a buyer make up the difference in cash, so there could be another option here which is a buyer covering some of the closing costs on the seller's end.

Price Reduction

The simplest solution, when possible, is to reduce the price if it was priced too high. The lender will be happy, and so will the buyer and then the deal can go through. You have to think that if you let one buyer walk away over the issue, that there's certainly a high likelihood the next buyer's lender could have the same issue.

Dispute the Appraisal

You don't have to accept an initial appraisal. That doesn't mean that your lender won't go with the first one, but it's worth a shot to dispute it or to ask for a second one.

You should always ask for a copy of the appraisal report as a seller, so you can go over it and make sure there are no glaring mistakes.

Only a lender can technically demand another appraisal, and they may or may not do that, but it's worth trying.

Get Comps

You can ask the real estate agents who are working on the deal to create a list of comps that would highlight the justification for the sale price that's been agreed on. Once that's compiled, you can give it to an underwriter and ask them to review the appraisal.
Finally, aside from flat-out canceling the transaction, you might be able to negotiate and come to an agreed-upon middle point. For example, a seller might agree to pay some of the difference between the sale price and the appraisal.

There are options, but you have to find what's going to work for you, and if you're working with a good agent, they should be able to help you find a solution if an appraisal comes in low.

Courtesy of Realty Times

What To Know About Earnest Money

Earnest money is just one of the many terms to know when it comes to buying a home. It's something you might initially overlook, but not understanding earnest money can create roadblocks in your process to buy a home once you're ready to make an offer.

The Basics of Earnest Money
In simple terms, the earnest money is a deposit that you put down to show that you're serious about buying a house. You want to show the seller that you really do want the home, and earnest money might be anywhere from 1% to 5% of the total purchase price.

It helps sweeten your offer to a seller and shows them that you want to take the necessary next steps to buy their home.

Then, in exchange for the earnest money, the seller will take their home off the market. They'll start to work to arrange things like inspections.

Earnest money goes into an escrow account while you wait on your closing. The escrow account is with either the seller's broker or title company, or an escrow company.

They're essentially securely storing your money until your closing. Then, that earnest money is subtracted from the total you owe, and it goes toward your closing costs.

How Much Earnest Money Should You Offer?
Again, earnest money is typically anywhere between 1% and 5% of the price you agree on with the seller to buy the house. There's a lot of variance in this, though. For example, in some locations, you might do a fixed amount and in others you could pay a percentage.

In very popular housing markets, you can see very high earnest money deposits. Your real estate agent will help you know what's in line with your area.

Earnest Money Is Not a Down Payment
This can be an area of confusion for some buyers—earnest money is not a down payment. Your down payment is fully separate from earnest money and is anywhere from 10-20% of your home's purchase price. You need to make sure that when you're thinking about how much a house will be, you're adding up your earnest money and your down payment. Your earnest money is due when you make an offer, while your down payment and closing costs are due later.

Is It Refundable?
When you enter into a purchase agreement, it will outline contingencies. These are situations that are agreed upon where you can walk away from a deal and still get your earnest money back.

For example, you might have an appraisal contingency in case the appraisal is lower than the sale price. Your real estate agent will help you decide the contingencies to put in your contract.

If you're in a highly competitive market, you might agree to nonrefundable earnest money. That's very risky because if your sale falls through, the seller gets to keep your money.

If you break the terms of whatever your purchase agreement is or you decide you don't want to buy a house anymore, then the seller can keep your earnest money.

This is why it's important to work with a qualified real estate agent. They'll help you understand what you need to know before you sign anything because otherwise, you could end up giving up a lot of money that you potentially can't afford.

As a final note, earnest money isn't required. If you're buying in a market that's not very competitive, you may not need to worry about it. It's instead a good way to beef up an offer, especially if you're worried there could be multiple offers on the house you want.

Courtesy of Realty Times

April Real Estate Roundup

Freddie Mac's results of its Primary Mortgage Market Survey® shows that "The drop in mortgage rates is good news for homeowners who are still looking to take advantage of the very low rate environment. Freddie Mac research suggests that lower income and minority homeowners have been less likely to engage in the refinance market. Low and declining mortgage rates provide these homeowners the opportunity to reduce their monthly payment and improve their financial position."

- 30-year fixed-rate mortgage (FRM) averaged 2.97 percent with an average 0.7 points for the week ending April 22, 2021, down from last month when it averaged 3.17 percent. A year ago, at this time, the 30-year FRM averaged 3.33 percent.
- 15-year FRM this week averaged 2.29 percent with an average 0.6 points, down from last month when it averaged 2.45 percent. A year ago, at this time, the 15-year FRM averaged 2.86 percent.
- 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 2.83 percent this week with an average 0.3 points, down from last month when it averaged 2.84 percent. A year ago, at this time, the 5-year ARM averaged 3.28 percent.

Courtesy of Realty Times

(continued from page 2)

toward a conventional loan. Government-backed mortgages, such as VA and FHA loans, also have forms of PMI but those can last through the life of the loan regardless of current market value.

A PMI policy is paid for by the borrowers but in the lender's favor. Let's say someone has a down payment of 5% plus some funds for closing costs. Instead of waiting and waiting until the savings account has the magical 20% down amount, the borrowers can put down 5% and take out a PMI policy. PMI pays the lender the difference between the down payment and 20%. Should the loan ever go into default, the lender is compensated for the 15% difference. Without PMI, the borrowers would have to sit on the sidelines for a while.

In addition, PMI isn't a 'forever' thing. Most policies will automatically fall off when the loan balance reaches 78%-80% of the original value through natural amortization. That can take a while, most any amortization table will show that, but it will magically go away at that time. Further, borrowers can pay down a mortgage balance to reach the needed figure on their own. Borrowers can request the lender drop PMI due to an expected increase in property values. Or any combination of these. Again, unlike some government-backed loans, private mortgage insurance can go away at some point in the future.

Consumers should talk to their loan officer to get a thorough understanding of the impact of a down payment. But they should also be aware the PMI isn't a bad thing. It's a good thing and gets eligible borrowers in homes faster.

Courtesy of Realty Times

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Tips For Growing An Urban Garden

Even an apartment-dweller in Alaska can raise edibles, given the right tools and motivation. Here are the primary things to consider when planning your garden:

What crops will you grow?

For outdoor gardening, the first step is to check local zoning ordinances and/or homeowner's association rules. Then determine your plant hardiness zone. Take that number and consult a planting schedule to find recommended plants and the best times for planting. Selecting plants can be almost as much fun as growing them.

Indoor gardening is especially affected by available light. If you have large, south-facing windows, you're set. If not, you will need to set up grow lights or get really creative. Hearty indoor crops that may work for you include: avocados, carrots, microgreens, lemons and scallions.

How can you garden... without a garden?

When you think of a garden, you probably envision lush rows of crops and tilled soils, producing plant after plant of vegetable-producing crops. Luckily, this dream may not be as far-fetched as you think. Find out if there is a community garden in your area, and take advantage of a fertile space to call your very own. Community gardens can be a way to share in the work, strengthen community bonds and enable others to participate. With the right equipment and some sweat equity, any community can turn a vacant lot into a food-producing zone.

It is entirely possible to garden at home, even when space is scarce. Urban gardeners have developed innovative ways to garden in small spaces.

- Build a grow tower: A 15-gallon plastic drum, a length of five-inch PVC pipe, a drill, and dirt—that's all you need to garden vertically. This Grow It! video demonstrates how.
- Garden in containers: Use containers of all sorts on your porch and patio to maximize your growing space including buckets, planter boxes, hanging baskets, pots, and wooden barrels.
- Create a rooftop garden: Utilize the space that most of us never even think about, your rooftop! If you have a flat space on your roof and a safe way to access it, consider designating that area as your growing space.

Don’t be discouraged by small spaces when you have the urge to grow your own produce. There are plenty of innovative ways to support a small garden, it’s just a matter of getting creative and finding the best route for you. Once you've sliced and tasted your very first home-grown tomato or finished your first batch of pesto from your home-grown basil, you'll know that all the hard work was well worth it!

Courtesy of Realty Times