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Marry the House, Date the Rate: Hopeful Homebuyers Bet on the Future

Here's how to tell if you should buy now with a plan to refinance

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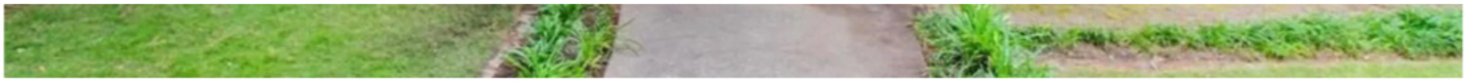

Newlyweds Rebecca Carsons and Eric Kauffman each gave up lower mortgage rates so they could buy a new home (pictured above) together. Courtesy of David Vannort

When Rebecca Carsons and Eric Kauffman held a housewarming party at their three-bedroom bungalow in Atlanta's historic Grant Park last weekend, a mortgage refinancing was already part of the plan.

The newly married couple bought the house about three months ago, accepting a mortgage rate of about double what they each had on their previous homes because it was important to them to have a home they'd chosen together, said David Vannort, their real estate broker.

"Life events like marriages are still happening, and people are still buying homes, but everyone who buys now is already planning on refinancing when rates go lower," Vannort said.

U.S. mortgage rates that fell to a record low less than three years ago have almost tripled to roughly 7.5%, making record high property prices all the more unaffordable, especially for anyone who took out a mortgage or refinanced a home during the pandemic buying boom of 2020 and 2021.

But there are other factors for prospective buyers to consider, including their own timing and circumstances, how much more prices may rise if they wait for rates to fall, and how long it would take for them to break even on whatever costs they would incur to refinance down the road, experts say. If you're in the same boat as Carsons and Kauffman, it could very well make sense to 'marry the house and date the rate,' as the industry expression goes.

"When you crunch all the numbers, getting a mortgage now and refinancing when rates drop puts most people way ahead of the game," said Melissa Cohn, regional vice president of William Raveis Mortgage, a lender in eight states. "That's why it's a good strategy to marry the house and date the rate."

Cohn gave this example: Take a $500,000 house you buy now with 20% down. A $400,000 mortgage loan at a 7.5% rate means you pay $2,796 a month in principal and interest.

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Then assume you buy the same house, but you wait until rates drop to 6%, however long that may be from now. Your payment at 6% would be $2,398, meaning buying now has cost you an extra $398 a month, or $4,776 each year.

But the price of that house will probably change each year too. If it goes up just 1% annually (and the National Association of Realtors forecasts a 1.6% gain over the next 12 months) a buyer is paying another $5,000 after one year — more than they would save in a year by waiting for rates to fall.

Plus, first-time buyers are likely to be renting until their purchase, and the longer you rent, the more money you waste, in some sense, since it doesn't go toward your investment.

Of course, refinancing at a lower rate isn't free, so it's important to consider the cost of refinancing and how long you are planning to stay in the home. (The typical seller has been in their home for about eight years, according to NAR.)

The average closing cost on a refinance is approximately $5,000, according to Freddie Mac, though it varies by the size of the mortgage and the area of the country. That includes fees for credit reports, attorneys, appraisals and other expenses.

So using Cohn's example again, someone who paid $5,000 to refinance at 6% would break even in just over a year. In other words, if they save $4,776 a year in their monthly payments, they would make up for the cost of the refi with that savings in 13 months.

And keep in mind that people often roll their closing costs into their new loan so that they don't have to pay it all upfront. The downside, though, is that you end up paying interest on those closing costs.

Another factor to consider is how competitive the market may become once rates begin to fall, said David Stevens, a housing finance consultant who was commissioner of the Federal Housing Authority during the Obama administration and formerly led the Mortgage Bankers Association.

There is such a shortage of homes for sale right now — almost half what there was prior to the pandemic — that many would-be buyers are turned off by the lack of choice and sales have noticeably dropped. But lower borrowing costs will encourage more bidding wars, Stevens said.

"This fall and winter may be the best buying opportunity we'll see for a while because once rates start to subside a little bit, which they will, the competition will ratchet up," he said. "There's so little supply, you have more of a chance of getting an offer accepted now."

Plus, the millennial generation — the largest in U.S. history — are now in their 30s and early 40s, Stevens pointed out.

"Those are peak homebuying years, and we have an extreme shortage of supply, so that means that demand is going to keep growing," Stevens said. "If people can afford to buy a house now, they should get in while they can, and get a better rate down the road."

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