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Nadeska Alexis:

Hi again, I'm Nadeska and this is season two of Beginner To Buyer. Beginner to Buyer is powered by Chase Home Lending. You can get helpful tools and resources to buy your first home by visiting [beginnertobuyer.com](https://beginnertobuyer.com). Making the decision to buy a home can be an emotional rollercoaster, and some of the ups and downs of owning A home can come just from trying to understand your home's value versus your home's equity. So, to help you realize the true value of your home, Chase Home Lending executive Dan Hofacker is here to give us a home equity primer. What is it, how to grow it, and how it can be used. First though, let's hear from a recent homeowner couple in Pittsburgh, Pennsylvania.

Ronnie:

My name is Ronnie, and we are in Pittsburgh. I work for a state senator out here.

Miriam:

I'm Miriam. I grew up between Costa Rica and Pittsburgh, and we lived in a different part of Pittsburgh before we bought this house, but we moved five minutes away from my mom, kind of coincidentally. But it's nice because my sister's 10, so I get to spend time with her more than I would otherwise.

Nadeska Alexis:

Being your family is always important, you guys sound like a very cool, very dynamic couple. So we work in politics. We grew up between Costa Rica and the States, what a cool life. So, tell me, before you guys just bought your first home, congratulations, by the way. What was your living situation before that?

Ronnie:

We first moved in together in a very tiny one bedroom apartment with three dogs.

Miriam:

And a cat.

Ronnie:

And a cat. That lasted for about four or five months. And then we rented a house the beginning of March 2020, luckily, because that's when everything shut down, and I love Miriam so much, but I love my space and pandemic and a tiny, tiny bedroom, one bedroom apartment and three dogs. I don't know.

Miriam:

Yeah, the one bedroom apartment didn't have a door on the bedroom, so I think it might even have counted as a studio. It was really, really tiny, and we loved our landlord, but we also needed more space for all combined, 200 pounds of pet we had.

Nadeska Alexis:

So, once it became clear that you needed more space just for you guys to have your personal space and also for the pets to spread out, where did you begin? Did you immediately go out and contact a realtor or did you start thinking about budgets and financial planning? How did that go?

Miriam:

I think that home ownership had a lot of attractions for us.

Nadeska Alexis:

What were some of the biggest reasons why?

Ronnie:

Well, personally for me, I never thought I would ever own a home. My mom doesn't own a home neither. The only people that owned a home in my family were my grandparents, and they had passed and we had eventually sell their home. So, I was okay with renting for the rest of my life, I think more home-

Nadeska Alexis:

And was that because of financial reasons or just because it hadn't, okay. You just felt like it would be too much to afford?

Ronnie:

Yeah, I thought it was going to be too much to afford on top of mortgage, and then if something were to break, I'm the landlord that I would have to call to fix it. So, I was just like, I'm fine renting.

Nadeska Alexis:

What was it that eventually changed your mind and made you guys feel like this was something that you could feasibly do, which obviously was true?

Ronnie:

When we were shopping around on Zillow and looking at what our mortgage might be, ended up being less than what we're paying in rent. So, I was more open to, okay.

Miriam:

Even houses that we didn't think that we would've been able to afford, we were like, oh, this is significantly less than we're paying in rent. I also think-

Nadeska Alexis:

It's funny how that works.

Miriam:

Full disclosure, we would absolutely not have been able to buy this house if it had not had been for financial help from my parents. So, we got serious about it when we were at Thanksgiving this year, and my dad had come up from Costa Rica, and basically was like, you should buy a house. He had just gotten

some money in an inheritance and he was like, have some of it and go buy a house. So, then it went from theoretical to like, oh, we should find a broker, we should get pre-approved, we should do all of these things.

Nadeska Alexis:

And what was it like going through all of those other steps? Because having some cash upfront is really necessary for your down payment of course, right? You want to have some money set aside for things like closing costs and then repairs, but then also there are things to consider your credit score and they want pay stubs and things like that. So, how did you guys feel about all of the other aspects, and is that something your family can advise you on, or did you then need to talk to a lender to understand how that would work?

Ronnie:

Yeah, we had to get to a lender to figure all that stuff out, but we did try to go through one lender. But Miriam had a really bad experience with this guy, and we feel like it's could be a little bit of transphobia and racism on his part. I legally changed my name and I didn't know this at the time, but when I gave him all my information, I gave him my information with my new legal name, but nothing was pulling up. So, Miriam talked to him.

Miriam:

He said like, oh, it wasn't pulling up that Ronnie had any credit history. And then he started making things up. He said that Ronnie had derogatory marks and low credit and very little credit history. And Ronnie and I are very honest with each other about our finances, so I knew that that was not true. And I was like, this is so fishy. I said, "If we do the mortgage just on mine, would that be possible?" And he said "No."

And then I asked him, if we got someone to cosign someone with a perfect credit score to cosign, would he approve us? And he said that he would under no circumstances approve a mortgage for us. And I was super frustrated by that because we're lucky enough to have people in our lives who we can ask to co-sign things. People have good credit scores, and being told specifically that even with a co-signer we would never be approved by this bank, was super frustrating. Once we had connected with another lender and he found out from our realtor that we had ended up getting approved, he was all apologetic. He called me, he called Ronnie, he was trying to talk to us again, but-

Nadeska Alexis:

But why at that point, I'm really sorry you had to go through that because not only is it just unprofessional, it's just disrespectful. A lender's really important in your home buying journey. And in my experience, what makes a good lender is helping you troubleshoot. Even when there are issues, they should be trying to help you find solutions or saying, "If we can't do this right now, here's a plan for where we can be in six months." So, I'm glad that you did go with someone else.

Miriam:

Yeah.

Nadeska Alexis:

How long did it take you to realize that you needed to just get away from that lender?

Ronnie:

I think right after that conversation.

Miriam:

So, this was a Friday afternoon. It was during nap time, I'm a nanny, so it was during nap time. I was trying to be quiet while still being forceful on the phone.

Ronnie:

I've never really had a credit card until just about a year and a half ago. So, I started getting really serious on my credit, and I knew I had good credit too when we were sending the original lender all this information. But Miriam was a little discouraged, didn't want to continue the process. I mean, naturally, of course. But after we talked to our lender and within just five minutes of talking to him, we found out what the solution is. He put in my old name, there's all your credit there. There it is. And he taught or not taught me, but he was like, yeah, just reach out to your credit bureaus, which was a challenge on its own, but fun fact, you can just contact your credit card and update your name with your credit card, and then your credit card updates all the credit bureaus. So, after a month of updating my name with a credit card, we ran our credit again, and then were approved for \$200,000.

Miriam:

It was in our introductory call with the broker that we ended up going with that. He was like, "Weird question, but have either of you changed your names?" And that was when we were like, oh, yes, yes, that's exactly what happened. Because apparently the credit reports don't run just on social security number, they run on social security number and name.

Nadeska Alexis:

So, I'm glad, although you got a bit discouraged, you didn't let that completely take you out of the game. And I think that's what anyone listening can take away from this story. I think a lot of people have a bad experience with a realtor or a lender and then decide that home ownership is just not for them. So, I'm super glad that you guys decided to move ahead. So, once you started things out with that lender and realized how much you would be approved from, then what were your next steps? Did you immediately start looking at houses? Did you put together the list of needs and also things that maybe you were willing to compromise on just to stay within budget?

Ronnie:

We first were looking at specific areas of Pittsburgh of where we want to live in. And then I think at first we need to have this, we need to have that this many bedrooms. But we quickly learned that if we were more open to less bedrooms or different parts of the area, it's opening up new, just different houses that we can see. We found a lot more options. We didn't really expect to buy so quickly. It was just like the house, a real estate agent showed us the house and told us it's going to get taken if you don't make a decision tonight. And we're like, oh damn. All right.

Miriam:

Yeah, especially since it had been a couple of months of looking and we were not super impressed, so we thought we had a lot more time. And then we saw the house, put in an offer, like an hour later it was

listed that afternoon. We saw it at 6:00, and we put in an offer at like 7:30, and it was accepted at 10:30 PM, so it was very, very, very fast.

Nadeska Alexis:

All right. Thank you so much, guys. I appreciate it. Look, clearly Ronnie and Miriam had an extra layer of complexity to navigate during the loan approval process. And that really highlights, again, the need for finding the right people to work with those people who will understand your unique situation and the best way to help you so that you can just be busy moving forward with building that generational wealth. Ronnie told me later that buying a home meant being able to build equity that they could pass down to their niece. Now let's talk about understanding the value of your home and explore the idea of building equity with Dan Hofacker, a Chase Home Lending Executive. So Dan, I think we generally all know what the term value means, but can you explain the importance of understanding the value of a home during the buying process?

Dan Hofacker:

Sure, thank you. Since the property serves as collateral in case the borrower defaults, the lender wants to make sure that the loan isn't too big compared with the property's value. In other words, the value should be equal to or greater than the home loan, which is also often called the mortgage.

Nadeska Alexis:

I think first time buyers will learn that an appraisal is one of the ways that you determine the value of a home during the process. But can you give us a little bit more detail on exactly what the appraisal is and why it's so important?

Dan Hofacker:

Yeah, so the appraisal is a documented process that most lenders require to establish the value of a home. It's a significant part of the home lending process to make sure that we have an understanding of the property's value. It would be in addition to some other things like understanding the borrower's ability to repay and making sure they have good credit.

Nadeska Alexis:

And what is the role of the appraiser in this process? How important are they?

Dan Hofacker:

The mortgage lender requires an appraisal to help gauge the risk of making the loan. And since the property serves as collateral, the appraiser will actually go in and observe the property, analyze the data, and then report their findings to the lender. For the typical home purchase transaction, the lender usually orders the appraisal to assist in the lender's decision to provide funds for a mortgage and evaluating properties to establish mortgage values and property ratings. They usually use internal and external resources. They do make an onsite visit. They inspect the property, and they'll oftentimes talk to the homeowner or the borrower.

Nadeska Alexis:

Appraisal reports can be pretty detailed, as they should be. What are some of the things that the appraiser is actually taking into consideration when they're calculating the value of the home?

Dan Hofacker:

Yeah. So, oftentimes the appraiser takes your home's features into consideration. They will also through investigation, understand the age through onsite visit, they'll understand the condition and they'll compare it also to similar homes in the area and what those have sold for. Oftentimes that is referred to as the comparables, the comparable property to your particular home. And because your home's value is based on the value of similar homes in the area, the local market will have a big impact on the appraisal.

Nadeska Alexis:

Absolutely. I mean, is there any situation at all where a lender would not get an appraisal as part of the lending process?

Dan Hofacker:

Usually they do get an appraisal. There are some instances where you might get a waiver. And so, that waiver generally comes from something called the government sponsored entities. Those are similarly referred to as Fannie Mae and Freddie Mac. And so, depending on the Fannie Mae and Freddie Mac's dataset, if they are comfortable and they have recency of data about the value of your home, they will issue that waiver. Some customers still, even though they might be eligible for a waiver, still might want to go ahead and get the appraisal because they want to see that detailed review. And so, if not an appraisal waiver, also some lenders do allow, if there was a recent appraisal, say within the past 120 days, some lenders will allow that recent appraisal to be used as part of a substitution for going to get a new appraisal.

Nadeska Alexis:

And do appraisers always get it right? What if I'm applying for a mortgage and I actually don't agree with the value that they put on the appraisal report, what can I do there? Or is there anything I can do?

Dan Hofacker:

Yeah. And so, one of the things that most major lenders do have is they have a rebuttal process. Sometimes that's referred to as a reconsideration of value process. The typical borrower or consumer will need to be prepared to have some data to illustrate why they felt that the appraiser got it wrong. Why, for example, they view that the appraised value came in under compared to other homes. Oftentimes it could be as simple as the appraiser completely got it wrong, they missed a room, or here's some other homes that have sold recently in the area, and we would think that these are better proxy for comparison. And so, that will then get submitted all that data generally through the process that lenders have for the appraiser then to take into consideration. They may change their mind, they may change a number. They may say, no, I actually think we got it right.

And also the other option is the appraiser if they do do that, the customer can still go and ask for a second appraisal to be done, and generally they'll have to pay for that one. And if the appraised value or the new appraisal doesn't change, generally what we also see is that the buyer or the borrower could pay the difference out of pocket between the appraised value and what the mortgage is requested to be. Or they could go back and renegotiate with the seller using that for example, in this instance, a lower value that came in on the appraisal as a reason to get a lowering of the sales price.

Nadeska Alexis:

Okay, that's great. So, there is something that you can do if you're not necessarily happy with the appraisal report now. So, that's the determining the value of a home before you officially purchase it. And once you own the home, understanding the value can take on a bit of a different meaning. So, how can a homeowner get a good sense of what their home is worth?

Dan Hofacker:

Yeah. So, there are, in some instances, online tools. An appraisal is another way to be able to assess that value. Some of the things that will actually impact and could increase the value of your home would be, for example, a new roof, a new bathroom, new appliances. For example, kitchens with modern attractive appliances or quality floors and countertops will likely increase a home's appraised value. And you should also document all of your home upgrades. And it is okay to give a copy of that to the appraiser for them to have as part of the inspection to be aware of.

Nadeska Alexis:

And what kind of things can actually hurt a homes value?

Dan Hofacker:

Yeah, one of the biggest things that can have a negative effect is the agent condition of the homes' infrastructure like HVAC or plumbing or the appliances. Another thing would be the changes in the real estate market could lower the value of your home. If you live in an area that has foreclosures, those can drive down the home property value. If your home lacks curb appeal, if your yard is filled with, for example, hazardous dead tree, if you've got mold or a repair needed on a roof, those are some of the additional things that could hurt the value of your home.

Nadeska Alexis:

So Dan, if my house is really, really messy, is that something that affects its value?

Dan Hofacker:

Well, for those that are listening that have kids, absolutely. The kids, my kids especially, I tell my kids all the time, it's going to affect the value of our house. So, you got to clean up after yourself. No, I'm just kidding. Generally, the amount of clutter to the extent that it begins to affect the structural condition of a house that would have an impact, but generally the amount of clutter, messiness, that's not going to affect an appraisal. The cleanliness doesn't have the impact on the value. It's actually not uncommon for an appraiser when they do go through a walkthrough to inspect a house, to walk into a cluttered messy home, and they navigate around it to the extent that it impedes their ability to identify issues such as mold or cracks, or identifying the age of your HVAC equipment, that's not going to impact it. So, you want to make sure that when an appraiser comes in, things are easy for them to get around, and that might have an impact, but generally it's not going to.

Nadeska Alexis:

Okay. That's good to know. So Dan, one of the terms first time home buyer is here thrown around Ola and they may not completely understand is equity. So, what exactly is home equity and how do you grow that?

Dan Hofacker:

Sure, in the simplest terms, the home equity is the difference between how much your home is worth and how much you owe on your mortgage. Some of the things that you do to increase the equity or value of your house and how much it's worth is to do some of those things like upgrade kitchen appliances, get a new roof, things of that nature, new bathroom.

Nadeska Alexis:

Okay. And how do your mortgage payments affect your equity? I think another thing some people are not clear about is when you're paying your monthly mortgage, how much actually goes to the principle versus the interest, and how that differs in terms of affecting the equity.

Dan Hofacker:

So, generally what you see within a mortgage payment, and for example, within our Chase website, you can be able to determine how much of your payment goes towards principle versus equity. Some consumers and some customers will actually double up or make an extra payment and say, I want you to apply this towards principle as opposed to interest. So, one of the ways that you can increase the equity is actually pay also down your mortgage, so that you actually owe less.

Nadeska Alexis:

Okay. And does changing the value of your home with some of those upgrades that you previously mentioned, does that immediately affect your equity?

Dan Hofacker:

Yes, for the most part. Some of those things that I mentioned such as HVAC, kitchen appliances, things of that nature will have almost a dollar for dollar impact. Some of the things that oftentimes people feel like should increase the value of their house would be, for example, a paint job or customized bookcases that maybe you find significant, after your alma mater or whatever. And generally, that is not something that is going to have a recognized increase in the home value.

Nadeska Alexis:

Absolutely. I mean, it's like you said, things that are more functional, like the kitchen, it's a bit more universal or always going to work better.

Dan Hofacker:

Yeah, anything that's a subjective matter of taste for your color of your walls, your curtains, your paintings, appraisers just generally don't evaluate taste when determining a home value. And not to say that it's not providing value to you and pleasant, but it's generally not going to increase the value.

Nadeska Alexis:

Right, which absolutely makes sense. And can you tell us a little bit about the potential cost of deferring maintenance to your home?

Dan Hofacker:

Yeah, so deferring maintenance to your home, especially if you're looking to either take out a home equity loan or home equity line of credit or even sell your house, that will at the time when you're looking to do those things, could impact negatively the ability to sell or to be able to take out a home

equity loan or line of credit. So, generally what you want to do is not defer that type of maintenance for too long. Obviously, it would have a meaningful impact. For example, if you know that you need a new roof, if you were to, for example, delay that, that will have a potential impact where you have water coming in, it could lead to mold and other issues that become really significant. If you've got a leaky window, generally water finds a way to get in. And so, you should take care of those things fairly quickly.

Nadeska Alexis:

And would you say that equity is something that you should start thinking about as soon as you purchase your home, or does it only apply if you were thinking about selling down the line or you want to take out another loan against a home, for example? When is that something that you should be in your head?

Dan Hofacker:

Yeah, so absolutely. It's something that you should always be considering is the equity and how much you owe and what improvements you've made. And as I mentioned earlier, some of the things that are outside of your control that really if you did everything right, could actually impact the value of the home, is the market environment, as I mentioned, if you've got foreclosures in your neighborhood, if the sales comps comparable properties that have sold in the area have sold for less, because generally the real estate market has kind of depressed, that could have an issue. One of the things that we found during the COVID environment and 2020, 2021, as you had a lot of people moving in and out of areas, you had record low interest rates, you saw the ability for a lot of home values to increase. You had consumers overpaying above asking price that drove the value up, that drove the extent that the sales prices or the proxy for comparables that drove a lot of the home value up for customers around the country.

And so, that would be an example of a market influence that could, in this instance, the past couple years, increase the value of homes. And then generally, as you now seeing interest rates rise a little bit more, you'll have less demand, less comparables, and you'll see that cooling off where that supply demand impact, where you might have a little bit more homes on the market now, let people not willing to move, not wanting to move, not willing to take on a higher payment, for example, with higher interest rates. Those sales comp will be lower and as such, that could to the extent that you were looking to sell your house impact value of your home, or if you were looking to get a home equity loan, a line of credit, same thing.

Nadeska Alexis:

So, then it makes sense, I guess, when thinking about equity to really work on the things that are in your control, doing those necessary upgrades and maintenance going to maintain the value of your home. And I guess sometimes if you have the time waiting it out in terms of the market shifting, correct?

Dan Hofacker:

Absolutely, control the controllables.

Nadeska Alexis:

All right Dan, thank you so much for your time and for all of the advice. We really appreciate it.

Dan Hofacker:

Absolutely.

Nadeska Alexis:

I hope you found that primer on home value and home equity useful, and maybe you'll consider using some of your home's equity for repairs and other upgrades. Because personally, I think some of the biggest joys of owning a home come from transforming the space to make it truly your own on how to make good design. So, next time we're going to ask the Scott Brothers for advice on how to make good design choices in our new home, what projects we can tackle ourselves, and when we should absolutely call in a pro. Until then, you can learn more by visiting [beginnertobuyer.com](http://beginnertobuyer.com) and check out season one of the podcast as well. Beginner to Buyer was created by Magnet Media and Chase Home Lending. Our executive producers are Ashley Bobo and Akash Vaswani. Our lead producer is Pamela Lawrence and our media editor is Matthew Dipietro.

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