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First-time Home Buyers - Don't Wait for Your Dream House

Are you looking to buy your first home? Have the current mortgage market conditions crushed your big dreams of homeownership? During the recent housing boom, even first-time buyers could get into their dream homes with little or no money down. In fact, according to a survey from the National Association of Realtors, in 2006, 45 percent of first-time buyers with zero down payment, and increase from the 43 percent who did so in 2005.

And apparently it is becoming more difficult to get into the mortgage market as a first-time buyer as the NAR study revealed that only 36 percent of all 2006 home purchases were by first-timers, compared with 40 percent in 2006. With home prices so high in some areas, Bank of America analyst Daniel Oppenheim estimates that home prices would have to fall seven percent and incomes would have to rise 4 percent to bring homes back to a generally affordable level by 2008.

These statistics can seem daunting, but there is some hope to be had for first-time home buyers. Home prices are falling in many areas around the country. And while it is true that the troubles in the subprime mortgage industry have led to stricter lending standards and less available home loan funding, there is still money out there to be had. You may not be able to start out in your dream home right now, but you can still enjoy the blessings of homeownership in a more affordable starter home.

Don't be afraid to start off with a modest dwelling that will serve your needs well for a few years. While it may not be your ideal space for relaxing and entertaining, a small home will come at a much smaller price tag and will be manageable within in your current budget. Plus after those few years, you will have acquired some equity in the home, making it easier for you to move up to a bigger, more accommodating place when you sell.

Another perk of choosing homeownership now, rather than renting and waiting for a more idyllic housing market, is that you will enjoy the tax breaks of deducting your mortgage interest and any private mortgage insurance you have to pay.

So what do you have to do to get into a home now? For starters, you should have at least something saved for a down payment. Many home sellers today like to see you put down at least five percent of the home's cost. For a \$150,000 home that means a \$7,500 down payment. For a \$350,000 home however, that means a \$17,500 down payment. That is another reason starting with a small home is a good idea — the less expensive the home, the less money you have to pay up front.

Also make sure you get mortgage funding that fits your goals. If you only plan to stay in the house a few years before moving up to something bigger, an adjustable rate mortgage (ARM) may be perfect for you. ARMs allow for low interest rate payments for an introductory period before the rate can adjust. If you plan to stay in the home for more than seven years or so, you would probably be better off going with a fixed rate mortgage, as you could lock in your interest rate while they are still at a historically low point.

Finally, don't forget to take a look at your credit score. In a credit crunched market, those with better credit are the preferred candidates for funding. Do what you can to improve your credit, if needed, before applying for your first home loan.