Timing's right for first-time buyers

5 tips to ensure a smart purchase

BY ILYCE GLINK, WEDNESDAY, MARCH 25, 2009.
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In the nearly 16 years I've been writing this column, I've never seen a better market in which to be a first-time home buyer.

The rising tide of foreclosures has pushed down home prices significantly over the past 18 months. Homes, relative to income, are about at the historic norm, which means they're more affordable than they've been in at least a decade.

Beyond that, if you buy a foreclosed property, you might wind up with spending even less, as lenders struggle to process all of the foreclosures and short sales that are piling up. (To give you some idea of just how many foreclosures abound in some markets, if there were no more foreclosures in Florida, it would take the courts nearly two years to process all of the foreclosures on the docket today.)

Not only have homes come down in price significantly, but 30-year fixed-rate loans are at about 5 percent. Some first-time buyers are getting 15-year rates at 4.5 percent or below. These are historically low interest rates that will seem downright cheap if mortgage interest rates rise above 7 percent, which they will likely do several years from now.

Spending less to finance a property means you can buy more for your money or buy less and save more for retirement or other purposes. With interest rates so low, and the price of homes falling, homeownership becomes affordable to many first-time homebuyers.

As if this wasn't enough of a push to get first-time buyers off the fence, the $8,000 tax credit has been added on top of the pile of first-time homebuyer goodies.

First-time buyers (defined as those who have never owned a home or have not owned a home in the past three years) who close on a home purchase before Dec. 1, 2009, can get up to an $8,000 tax credit on their 2009 income tax return. (If you already bought a house after Jan. 1, 2009, you can file for the credit on your 2008 tax return.)

When it comes to hiring a real estate agent, sales are so slow that even the best agents aren't that busy. That means you shouldn't feel rushed or pushed into making a decision. Your agent should have time to really help you understand what you want to buy, and help you secure an excellent deal on a property.

So who is buying what these days? One 30-something radio producer in Atlanta told me he plans to close on his home in the next 60 days. The producer bought a single-family house (it was a foreclosure) and shopped around until he got a 4.2 percent 15-year mortgage.

Another couple in their mid-twenties just closed on their purchase, a new construction foreclosure that had never been lived in. "The house was in unbelievably good shape and the process was incredibly easy," the wife's father told me. "When I bought my last house, it wasn't this easy."

While the housing crisis continues to play out, some first-time buyers are finding a wide-open road leading to the house of their dreams. And even in this year, some 4 million people will buy a new or existing home.

If you want to make sure the house you buy this year is a smart financial move, follow these quick tips:

1. Get preapproved for your loan before looking for a house. If you get preapproved, that means the lender has to pull a copy of your credit history and score, you have to apply for the loan, and the lender has to approve your application. Make sure you shop around for the best lender and loan before putting in an application.

2. Once you know what you can spend, find the right neighborhood for the next seven to 10 years. If you plan to stay in your home for at least seven to 10 years, you'll be able to ride out almost any downturn in the market. That's important because it'll cost you around 10 percent of the sales price to sell that home. Over seven to 10 years, you've got a good shot of at least breaking even on the sale, plus you'll have built up a decent amount of equity by paying down your mortgage each month.

3. Don't go for flash -- buy what you need. You can always add granite countertops to a kitchen. It's a lot harder to buy the size house you need in your school district of choice. So, buy something a little faded and dated, and upgrade over time as your budget allows.

4. Make sure you have cash in reserve. Houses always need something, so when you're calculating your budget, make sure you allow some extra cash for upkeep and maintenance, like roof leaks, broken hot water heaters, and air conditioning or furnace maintenance. Having a decent reserve fund will allow you to sleep at night without worrying that you've stretched yourself too thin.

5. With all that has happened in the real estate market the past several years, make sure you don't stretch yourself too thin. Buy a home that you can afford now and for the long term. Buy a home that suits your needs now and down the line. In the past I have written about overbuying a home -- that is buying a bigger and better house than you need. Just because you can afford the mortgage payments now, doesn't mean that you should buy more than you need or more than you can afford in the future. Good planning in the purchase of your home should go hand in hand with good financial planning for your future.