

5 tips for the first-time homebuyer

By [Marcie Geffner](#) • Bankrate.com

Major changes in [mortgage](#) lending and housing markets have created a new world for first-time homebuyers.

Sure, much of the traditional advice still applies. But today's buyers need to get savvy about certain dynamics that are new on the homebuying scene. Here are five fresh tips to get first-timers off on the right track to homeownership.

Mortgages insured by the Federal Housing Administration, called [FHA loans](#), have been a popular choice for first-time homebuyers in the past few years. And FHA loans are still attractive because they offer reasonable qualifying guidelines and credit score flexibility, and allow a minimum down payment of just 3.5 percent of the home's purchase price.

However, a recent increase in the annual premium for FHA mortgage insurance -- required on all FHA loans -- has made a conventional loan with [private mortgage insurance](#), or PMI, a cheaper choice for most borrowers. That's according to Jay Dacey, a mortgage broker at Metropolitan Financial Mortgage Co., in Minneapolis. Borrowers who can meet the tighter guidelines for a conventional loan and, in most cases, muster up a larger down payment can save as much as \$50 to \$100 a month, Dacey says.

PMI, paid for by the borrower, protects the lender from a loss if the borrower defaults on the loan. The premium can be paid monthly, wrapped into a higher interest rate or financed upfront as part of the loan amount.

Many homebuyers have heard horror stories about so-called "garbage" or "junk" fees that are tacked onto mortgage costs at closing, when it's all but too late to find an alternative, less expensive loan. Such tales, while once valid, might be outdated today, says [Jared Martin, CEO of Keystone Funding](#), a mortgage company in Media, Pa.

That's because a new government-mandated [good faith estimate](#), or GFE, should be much more true to its name. For many of the fees listed on this important disclosure form, there's zero tolerance for any increase. Others can vary from the estimate only by relatively modest percentages.

"For the most part," Martin says, "buyers should feel pretty safe that new regulations have killed the scenario where all these fees show up at closing."

Stephen Israel, president of Buyer's Edge, a buyers-only real estate brokerage in Bethesda, Md., says, "What you see is not always what you get."

That's a cliché, but still a valid caution with respect to online photos of homes for sale. Buyers today, Israel says, need to "try very carefully to understand the scale" of a home shown in a photo since wide-angle camera lenses can distort the size and shape of a space.

"You look at a picture and it looks like a big room, but then you realize there are two small windows with two feet in between them at the end, which means that room is, probably, only nine feet wide," he says.

Buyers also need to [watch out for staging techniques](#), which aim to camouflage a home's flaws and highlight its features.

"Take away the colorful towels, and that old bathroom with old tile in it is butt-ugly pink and black," Israel says.

Of course, some people love the retro look. The point is that professional home staging can create distractions buyers should try to see beyond.

First-time homebuyers understandably want to purchase their dream house, though most have to settle for something less than pure fantasyland, according to Greg Cook, a loan consultant at Guild Mortgage Co. in Temecula, Calif.

Still, brokers say fallen prices and low interest rates have empowered more buyers to skip the traditional small starter house in a less desirable neighborhood, and instead buy what used to be considered a trade-up house right out of the homeownership gate.

"The [decline in property values](#) has made some really nice houses very affordable,"

Cheaper prices and low rates only partially explain why condominiums no longer make the cut on as many first-timers' shopping lists. Another reason is that [lenders view condos more cautiously](#) because foreclosures have caused considerable financial pain for condo homeowners associations. Unpaid dues force associations to skimp on common-area maintenance and put off necessary repairs, devaluing the property.

An association's financial status typically isn't disclosed in the real estate brokers' multiple listing service, putting the onus on buyers and buyer's agents to ferret out which buildings will qualify for conventional or FHA financing.

"If enough people in an association walk away, the association doesn't have enough money to maintain itself," Dacey says. "You can't get a mortgage for a condo building if their financials aren't sound."

That means first-timers who don't have a lot of cash may not have a shot at buying those homes.

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