

Buying Your First Home

Know thy agent

Will Rogers, the great American cowboy wit, said "I've never met a man I didn't like." It's the same with real estate agents. I've never met one that wasn't friendly, smiling and brimming over with positive ness. Dig deeper to know what you're getting in terms of loyalty, knowledge and experience. The right agent is a tremendous help—and often a necessity when it comes to finding the right house.

Get references from family, friends and colleagues. Take time to interview at least three agents in person. Ask to see their "activity lists." These show every property they sold during the past year—you want an agent who's experienced in the area where you want to live and who deals with buyers in your price range.

A seller's agent works for and gives complete allegiance to the seller; a buyer's agent does the same for the buyer. Most states require agents to tell the buyer for whom they're working. Even in the rush of house hunting make sure you find out this important piece of information. A buyer's agent will point out—rather than gloss over—any flaws with the house or neighborhood, help you negotiate a good deal, explain your other options and be unquestionably on your side.

Tip: The cost will be the same whether you use the seller's agent or get a buyer's agent: The two agents will split the commission.

Don't go overboard

Buy only what you can afford. Everyone can agree that a four-bedroom, three-bathroom house in mint condition on three lushly landscaped acres with a pool has more appeal than a two-bedroom, one-bath on a small lot. But there's nothing worse than winding up with such a big monthly payment that you've nothing left over for a vacation, the kids' camp or your retirement. A good rule of thumb: Your total monthly debts, including your mortgage, should not exceed 36 percent of your income before taxes.

Remember that your mortgage payment is only one aspect of what you'll be paying. Budget for homeowner's insurance, property taxes, furniture, general maintenance and so on.

Pick the right mortgage

Mortgages are available from banks, mortgage companies and credit unions. You can also get one through a mortgage broker, who will contact several lenders for you to find competitive rates.

Get mortgage information from more than one source, and get the same information from each so you can compare the offers. The Federal Trade Commission (FTC) recommends that in addition to finding out the basic interest rate you ask each lender:

Is the rate fixed or adjustable? When interest rates rise, monthly payments for adjustable-rate loans eventually go up, too. What is the loan's annual percentage rate (APR)? This includes the interest rate, points, broker fees and any credit charges you may have to pay, expressed as a yearly rate.

What will points be in dollars? Points are fees paid to the lender or broker for the loan. Ask each potential lender for a quote in the dollar amount (rather than just the number of points) so you'll know how much you will have to pay.

Is private mortgage insurance (PMI) required? If you make less than a 20 percent down payment, the lender will probably require you to purchase PMI, which protects the lender in case you fail to pay. Find out the exact monthly amount and how long you will be required to carry PMI.

You will also have to choose between a 30-year or 15-year mortgage. A 30-year mortgage will mean lower monthly payments but a higher interest rate. In the long run, you'll be paying more for your house because you'll be making more interest payments. With a 15-year mortgage, the monthly bill will be higher but the interest rate lower; thus you'll pay less for your house because it will be paid off in a shorter period of time.

Have each lender provide you with a written statement of all fees connected to the loan. Then, ask each to reduce one or more of the fees. Use the lowest amount of fees to negotiate with the other lenders to see if they'll reduce their fees.

Also, check out the FTC's publication *Looking for the Best Mortgage*.

Tip: If you have an excellent credit rating, you may qualify for a lower down payment through a special Fannie Mae program: The Flexible 100™; requires no down payment while the Flexible 97™; requires just 3 percent down.

Get a pre-approval letter

This gives you substantial leverage: Sellers immediately see you as a serious buyer. Not only will you know the exact price range you can afford, you'll be able to negotiate a better deal and move faster when you see a house you like. Work with your lender to get pre-approved—you'll need to supply information to verify your income, credit history, debts and assets. The lender will then issue a letter stating that your mortgage is approved for a certain dollar amount for

a certain time period. Don't confuse pre-approved with prequalification: The latter is a non-binding estimate of how much mortgage you can afford.

Once you get pre-approved for a mortgage, avoid taking on any serious new debt and make timely payments on all existing debts. Otherwise you risk degrading your credit rating partway through the buying process.

Tip: If you're charged a pre-approved fee, negotiate to have it refunded at the closing.

Lock in your interest rate

Once you get what you think are the best terms possible, ask for a written rate lock. It will include the interest rate, how long the lock-in will last and the number of points to be paid. A lock-in protects you from a rate increase if rates go up during the time your loan is being processed.

Play it close to the chest

If you fall in love a house, keep your feelings to yourself. Don't let the seller or the seller's agent know. Handing over that bit of information will empower them to hold out for the asking price. Keep in mind that there's always another house at the right price.

Tip: Visit at night and on a weekday. Most people look at homes on weekends in the daylight; before you buy, find out what the neighborhood is like at other times. Is it quiet? Noisy? Full of traffic? Dead as a doornail? Also, drive the surrounding few blocks in each direction from the house, to make sure there aren't unsavory areas or unexpected industrial sites nearby.

Negotiate

Before making an offer, ask the agent for a Comparative Market Analysis (CMA). The CMA lists the addresses of recently sold homes in the same neighborhood, with the date sold, the price and the number of bedrooms and bathrooms. Your offer should be comparable and not necessarily based on the seller's asking price.

Then, insist that the contract include two types of escape clauses: a financing (or mortgage) contingency and an inspection contingency.

If you make an offer but then are ultimately turned down by lenders, the financing contingency will release you from the contract. You'll also get back your earnest money (your deposit).

If a professional inspection finds damage or structural flaws in the house, the inspection contingency will release you from the contract and your deposit will be returned. Usually you can also opt to use the inspection contingency to negotiate for repairs to the house or for a lower selling price. There are different types of inspection contingencies; work with your agent to put the type you want into the written offer you make on the house.

Tip: Never use an inspector recommended by the seller's real estate agent.

Watch out for predatory lending

Every once in a while, the FTC issues a warning about unscrupulous lenders. Signs of trouble:

Being asked to include false information on your loan application.

Being asked to sign a blank form.

Being pressured into borrowing more money than you need or can afford.

Being promised one thing but delivered another. If you get new numbers or new terms at the closing, ask for an explanation. Tell your lawyer you are prepared to walk away.