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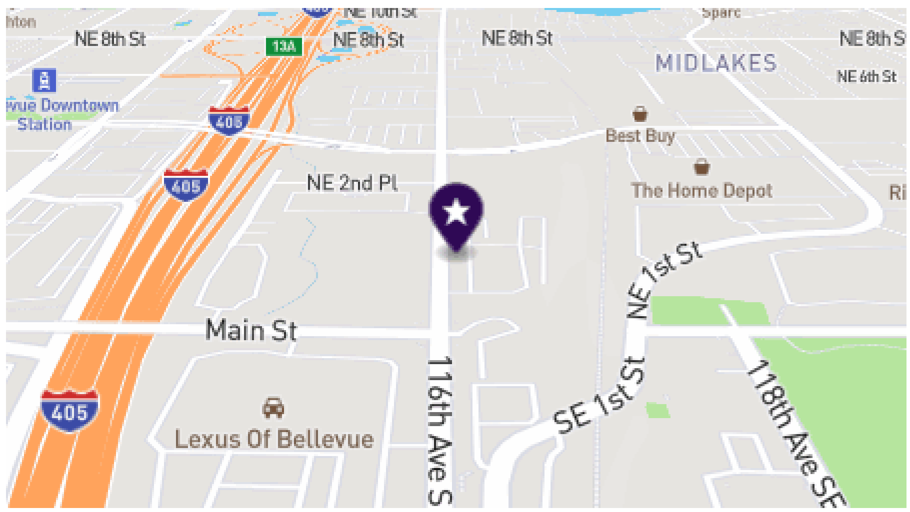

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Follow these Steps

Get prequalified - Your lender will look at your income, credit scores, revolving debts, obligations such as child support as well as the type of loan you choose. Other factors that impact how much home you can buy is the down payment; smaller down payments mean higher monthly payments. Last, the interest rate and terms (30-year, fixed or adjustable rate) will determine what you can afford in monthly payments.

Make your wish list - Decide where you want to live and how many bedrooms and baths you'll need. Consider lifestyle - condominiums offer shared amenities, with little responsibility. Single-family homes offer more space and privacy, but much more exterior and yard maintenance.

Hire a real estate professional - Your real estate professional should be expert in the area where you want to live and familiar with the type of home you want to buy. Your agent has house-by-house experience in your neighborhood and can offer the best advice on homes in your range.

Select your home - No home is perfect, so don't let minor flaws influence you. Think long-term. Which home best suits the activities and needs of your household now and in the years ahead? Don't buy more than you need or can comfortably afford.

Make an offer - Your offer depends on the current market. If a home has been on the market a long time, you can ask the seller for a price reduction, but if it's new on the market, the seller is unlikely to accept a low offer. Ask your real estate professional for advice.

Get an inspection - A home inspection is a professional third-party opinion of the home's condition. The inspector will point out the age of systems, and large and small repairs that are needed, so you'll know what you're facing as the next owner.

Get an appraisal - The bank appraisal determines market value. If the home doesn't appraise for the purchase price, the bank will refuse to make the loan unless you renegotiate with the seller. If it appraises, the lender will move toward closing.

Go to closing - Once final negotiations are complete, the parties to the transaction meet at the escrow office. This could be a title company, real estate attorney, or whatever is customary in your area. All paperwork is signed by both parties. The lender pays the seller, minus any liens against the home such as the seller's mortgage. Once all the disbursements have been made, you get the keys to your new home, according to your agreement. ***Congratulations! You're ready to move into your new home***

Find an Experienced Real Estate Broker or Agent

Buying a first home is a complex process. An experienced real estate broker or agent will assist you all through the search, comparable homes sold, making an offer, inspection, repair, and appraisal processes, as well as help you find the best value, neighborhood, and quality for your budget and requirements.

The seller's real estate broker pays your broker or agent out of the loan proceeds. If you don't use your own agent, the seller's broker keeps the commission, so you might as well avail yourself of professional advice. Your real estate broker or agent works in your best interest.

Don't expect perfection

There's no perfect home. You may want all the latest amenities of a new home, but even new homes come at a price, perhaps longer commutes and bigger pricetags.

Many sellers don't repaint or recarpet prior to selling, so if you're shopping for an older home, expect to do some cosmetic work.

Homes that need updating are priced below homes that are up to the minute and move-in ready. That could be to your financial advantage, so try to look beyond outdated fixtures and focus instead on the floorplan and dimensions. Ignore the seller's tastes and imagine each room clean and clear of clutter and with your own things in them.

Most cosmetic changes are relatively inexpensive, and you can even pay for them with your mortgage loan, in some cases. Talk to your lender.

Think long-term investment

Buying a home can be a wise financial investment, if you buy right and hold your home for long-term gain. Because of closing and moving costs, it's nearly impossible to buy a home and sell it immediately for a large gain, but it is possible to sell after a couple of years with no capital gains tax, should you make a profit.

According to the National Association of REALTORS®, home equity growth beats inflation by about one to two percent annually, not to mention government subsidies for home ownership in the form of tax relief and other incentives.

However, if you look at owning a home strictly as an investment, you'll miss many pleasures.

WHAT ARE YOUR HOMEBUYING GOALS?

With the dramatic rise and fall of housing prices over the last decade, consumers have new respect for homes as investments. But the flip side, is that your investment is still a home, one you're likely to occupy for several years or more.

Ownership

According to the annual Profile of Home Buyers and Sellers, compiled by the National Association of REALTORS®, the primary reason buyers cite for purchasing a home is simply the desire to own, followed closely by the desire for more space, and a change in the family situation.

For most people, buying a home is more about giving household members more comfortable living arrangements and putting them closer to jobs, favorite activities, other family and friends. What are your goals for buying a home? You might want a better home and neighborhood. You might want a different kind of living experience, such as moving from an apartment to a single-family home with a private garage and yard. Your family may be growing, so you have to think about school districts and proximity to parks and other recreation.

If you're not certain, you might think about what would change about your situation if you became a homeowner. You'll definitely be more established. If you're like most homebuyers, you expect to stay in your new home about 10 years.

Equity

You'll also build equity for yourself, instead of for someone else. Every payment you make, plus the rules of inflation will eventually allow you to recoup most if not all of your investment, or make a profit when you sell. Affordability may also be an important factor for you. The combination of low interest rates and low prices allows you to buy more home for the money. Rents are rising, making ownership more affordable than renting in many areas, especially when you factor in tax incentives such as mortgage interest deductions and property taxes allowable as deductions against your income.

When you buy, make your goals long-term. Choose the home you think will serve your household's needs the best for the longest period of time, as it's been proven that the longer you own a home, the more equity you'll build. Today's market conditions and affordability, make it more likely that you will reach your homebuying goals, no matter what they are.

SHOULD YOU WAIT TO BUY A HOME?

What makes people want to buy a home? Space, privacy, proximity to family and friends, and a sense of community all contribute to the emotions of buying a home. Tax breaks, transportation, amenities, and the opportunity to build equity are also factors.

But the biggest reason cited by home buyers year after year is simply the desire to own. According to the National Association of REALTORS®, 75% of first-time buyers are former renters. They prefer to build equity for themselves than for someone else. There's always a risk that home prices will fall further, but prices and mortgage interest rates have bounced along the bottom long enough that sooner or later one or both will start rising again. That means the risk is greater that prices and mortgage interest rates will rise, rather than fall.

Researchers at the Center for Economic and Policy Research studied 100 communities and found that affordability is a strong incentive to buy now. You can build equity within four years, and take the money you've put in the home back out again when you leave, which is not possible for renters.

So how do you know if it's the right time to buy?

It's affordable

Only you know if you're in a position to buy a home. Your lender will let you know how much home you qualify to buy. Work with your real estate professional to find neighborhoods and homes that are within your borrowing limits. Compare the rent you're paying now with the monthly payment you'll be making including property taxes and hazard insurance.

The time is right

Buying a home is one of the greatest lifestyle changes you can make. It goes hand in hand with forming a family and becoming a productive member of the community. If you want the amenities of home ownership, you will enjoy owning.

Incentives are huge

Mortgage money is the cheapest money you'll ever borrow. Couple that with low prices that are sure to rise and you have the makings of a great investment. Further, you can deduct your mortgage interest rate and property taxes from your income taxes. And you can sell your home after two years and not pay capital gains on any profits. You can rent your home to others and start building a portfolio of self-sustaining properties. Don't worry about timing the market. Even the smartest investors don't wait for the bottom to buy – because you don't know where the bottom is until it's already passed you by.

HOW TO DECIDE WHICH HOME TO BUY

Buying a home is a long-term commitment. The home you buy should be affordable, yet offer the size, features and amenities you and your family want.

Affordability

Your monthly payments should be comfortable for you to handle, in relationship to your total obligations, about 28% of gross monthly income. Your house payment and your debts should not exceed 36% of your income, including revolving credit, student loans, and child support. You should also be in the correct loan for your needs. A fixed rate is more expensive, but offers more protection than an adjustable rate mortgage that can reset to a higher amount, making your monthly payments higher.

Also, consider the monthly operating costs of the home including utilities, HOA fees, landscaping, commuting, and other costs.

Location

Location is about convenience, and you'll pay a premium to be closer to work centers, parks, shopping and transportation. You can buy a smaller home, or you can buy a home in need of updates to get closer to where you need to be. Think about your commutes to frequent destinations, including jobs, schools, family and friends. To get "more house," you may have to move further away from core city centers.

Features

Make a list of must-have features so you can narrow your home search. A front porch, a two-car garage, hardwood floors, and eat-in kitchen can all add to the enjoyment of your home. Just as important is how your home is designed. The number of bedrooms and baths should suit your household members, and the layout should suit your lifestyle. If you like to entertain, you should have plenty of dining space and storage for dishes and cookware. If you frequently work at home, you'll need a home office or at least a quiet designated workspace. Just make sure the home you choose allows room for your family to grow.

Talk to your lender and see what you can qualify to buy, then talk with your real estate professional about the home you have in mind. With professional guidance, you should be able to find and buy the home of your dreams, where you'll be happy for a long time to come.

LOWER PRICE OR LOWER INTEREST RATE

Which is better?

In a buyer's market, buyers wait for signs that prices are going lower. In a seller's market, buyers don't wait because they're afraid prices will go higher. Both markets move on the fear of paying too much.

Right now, buyers have the best of both worlds – home prices have rolled back to nearly a decade ago, and mortgage interest rates are at record lows. Yet, many buyers are still waiting for a sign that it's the right time to buy.

Should you wait for lower prices or lower interest rates before you jump in? Consider the following:

The price of a home is fixed. Buyers have figured out that interest rates can change, so they wait for prices to go lower, but what they don't realize is that prices have to drop significantly to equal a minor fluctuation in mortgage interest rates.

Mortgage Calculator

A quick visit to a mortgage calculator will show you the following:

- If you buy a home at $200,000 and a 30-year, fixed-rate mortgage at 4.5%, your monthly payment will be $1,013.37 and you'll pay $164,813.42 in interest over the life of the loan.
- The same home at 5% interest costs $1,073.64, a difference of $60.27 more per month and $186,511.57 in interest over the life of the loan. The difference in interest payments alone is $21,698.15.
- If your home dropped 5% in value and you were able to buy it at $190,000 and 4.5% interest, your payment would be $962.70, a difference of $50.67 per month, with $156,572.75 in interest over the life of the loan. You'd save $50.67 per month than if you'd paid $200,000.
- At 5%, your $190,000 home costs $1019.96, or $53.68 more per month than if you'd gotten the loan at 4.5%. Your interest payments would total $177,185.99 over the life of the loan. The difference in payments is $20,613.24.

Home prices today are well below the peak of the housing boom in 2005, and mortgage interest rates are at all-time lows. Sooner or later one of them will move up.

Why not buy while both are low?

YOUR DOWN PAYMENT

Good News

Lately, it's been in the news that credit is tight, but if you believe that you need 20% down and perfect credit to buy a home, you may have good news coming.

Loans are available with as little as zero down through the Veterans Administration, for veterans and active-duty military. FHA has programs as low as 3.5 percent down for qualifying borrowers who buy within maximum loan limits.

Credit Score

Borrowers with less than perfect credit can get loans as well. Higher credit scores help qualify borrowers for better rates. For example, if you have a credit score of 620 or better, you can buy a home through FHA with 10% down.

The rule of thumb is simple – less money down requires a higher credit score and vice versa.

A down payment is simply your way of showing the lender that you are willing to risk your money to buy the home you want. The larger the down payment, the more likely the lender is to make the loan.

The credit score will tell you how much money you have to put down; it's a factor in your interest rate. If you put 20 percent down, you can get a loan even if you have a low credit score of 580 or 620. If you have a 740 or 760, the lender will go with less money down.

First Time Buyers

It also matters where the down payment money is coming from. Lenders expect first-time buyers to get help from family to buy a home, so there may be limits to the size or percentage of the down payment gift that the lender will allow.

Down payment assistance can also come from grants. The FHA no longer allows seller-assisted down payments, but does provide a link to national organizations that may be of help. Also, check your local housing authority to see if there are grants available in your area.

Talk to your lender before you make an offer. Get prequalified, and be up front about the source of your down payment money. A good lender will explain the true costs of borrowing to you so you can comfortably afford the home you want as well as the monthly payments.

Buying an REO isn't for the faint-hearted, but if you're willing to work with the bank, asset manager or mortgage clearing company, good deals may abound in your area.

Buying a Real Estate Owned Property

An REO simply means real-estate-owned; the foreclosed home has gone through a legal collections process ending in selling the home at a public auction. If the home doesn't sell, the bank takes it back and turns the management and disposition of the home over to an asset manager or mortgage clearing company to obtain the best price possible.

One advantage to buying an REO is that you don't have to pay cash, as you would at a bank auction. If the REO is listed with a real estate broker, you can obtain a bank loan to buy it, just as you would with any property. In fact, the bank who owns the property may be willing to make you a good loan.

For Sale "As Is"

It's to your negotiating advantage that the REO has already been presented to the auction market and had no takers. The bank will still try to get the home sold for what they already have in it, plus interest and foreclosure costs, giving you the opportunity to buy the property for less than the bank loaned to the defaulting homeowner. REOs aren't slam-dunk profit centers though. The disadvantage of buying an REO is that you buy "as is," which means the bank makes no guarantees. The home you want may have real issues, such as burst pipes, insect infestations, or other damage while the home sat unoccupied and untended. In some cases, the house may have been stripped of plumbing fixtures and copper wiring. Before you buy an REO, take some pictures of areas that need repair and try to interview some contractors to get an idea of what it would cost to fix them. Many homes just need cosmetic work, a little paint and cleanup. Others have extensive damage, and you may require a home improvement loan.

Talk to your lender and see what you qualify to buy. If you qualify for $200,000 and the home you want will cost $140,000 but it needs $50,000 worth of work, will the bank loan you the money for the improvements? Ask about the FHA 203K home repair loan. It is a conforming loan, guaranteed by the government, that allows you to make updates and repairs, but if you need to move any walls or have serious foundation issues, you may have to go with an in-house bank loan at a higher interest rate. Your decision to buy an REO boils down to this – can you bring the property up to neighborhood standards without spending more than current market values?

You'll have to weigh that against getting a home in move-in condition at a higher price.

HOW TO BUY A FORECLOSURE (REO)

A foreclosure is simply a home that has gone through the legal process of repossession by the bank. The property then is disposed of through the asset management division of the bank or through a third-party asset manager.

Foreclosures

There are two ways to buy a foreclosure - through auction and on the open market. Until the home has completed the foreclosure process the homeowner has every opportunity to save the home, but once it's over, the home is available for auction. Auctions are announced in local newspapers so you know when a particular home will be put on the block.

You'll have only a little time to drive by, and you will not be allowed inside as the home is not open to the market.

Contact your real estate professional for advice. He or she will help you research foreclosed properties of interest, or you can go through the county records yourself to learn more.

Auctions

At auction, the home goes to the highest bidder and the proceeds go toward the remaining mortgage debt. If you want to buy at auction, be prepared to bid against other investors on the courthouse steps and to pay cash for the home if your bid is accepted. Don't let excitement rule you; stay within your planned maximum bid.

Real Estate Owned (REO) Properties

If the home doesn't sell at auction, the bank takes the home back as an REO, or real-estate-owned property. From there the property is typically turned over to an asset manager and put on the open market. Once the REO is listed with a real estate broker, you can buy it just as you would any other listed property, with a mortgage loan if you prefer. But, be prepared for out-of-the-ordinary delays. Asset managers may be handling hundreds of properties in your area. They may be unresponsive to low-ball offers, or refuse to negotiate at all. Their job is to get the most return possible for the bank.

Tips

When you shop for an REO, consider the same things you would in any other home – location, condition, features and price. Foreclosures are often in poor repair, so be prepared to put sweat equity into the home or to hire a contractor. Banks seldom do any more than make repairs required by federal lending standards. REOs are sold "as is," which means buyer beware. Before you put a contract on an REO, take some pictures of areas that need repair and try to interview some contractors to get an idea of what it would cost to fix them. Talk to your lender. Federal insurers such as FHA and VA have home improvement loan programs that may help.

When you make your offer to the bank, allow 10 days to get an inspection, but try to get your inspector in the next day after your contract is accepted. You'll have plenty of time to get contractors into the house to give you firm bids on repairs and updates, as well. Go back to your banker with your bids. The bank will appraise the house two ways for you, giving you a value for its current condition, and a second value based on the improvements you propose. If you’re in line with neighborhood values, you'll likely get the loan Buying a foreclosure is only a good deal if you can buy the property and pay for the necessary repairs and updates it takes to bring the property up to neighborhood standards.

If you can’t come within the values of market comparables, you overpaid. If you can, you got yourself a very good deal.

When they purchased their homes, sellers were required to make down payments to qualify for their mortgages and they may have built up some equity from paying their mortgages. However, some may not have owned their homes long enough to break even or sell at a profit. Further, the local market may have changed; falling home values may have stripped any equity the seller earned to the point that they owe more on their homes than they're worth.

Short Sale

A short sale is a transaction approved by a lender to clear the seller's mortgage debt for less than what the seller owes. A short sale can mean that a home is marketed substantially below the seller's purchase price, which can result in a substantial bargain for the next homebuyer.

It's the lender who is taking the loss though. For that reason, short sales can take months longer than a typical home purchase, and may never happen. That can be a problem for a homebuyer who has locked in a low interest rate, or who is interested in moving into their new home within the next two months.

First, the seller must prove financial distress to the lender, including W-2s, bank statements, payroll stubs, termination letters, financial statements, a letter explaining the hardship, and more. Then the lender must substantiate the current market value of the home to verify what the seller says – that they can't sell the home for enough money to clear their debt and transaction fees. Lenders also have to protect themselves from fraud – straw buyers can turn around and sell the home back to the homeowner cheaply, for a favor or a fee.

Talk to your real estate professional

Before you make an offer on a home that is advertised as a short sale, talk to your real estate professional:

- Verify that the seller has provided required short sale documentation to the lender.
- Verify that the seller's lender has agreed to a short sale, and that it is not simply wishful thinking on the part of the seller.
- Find out the amount remaining on the seller's note.
- Verify market value as well as pending market value, especially if it is lower.
- Choose an offer price that is high enough to cover the note, but is still below market value.
- Make your offer contingent upon the lender's written acceptance of the short sale terms.

Keep in mind that a short sale has risks and rewards. Yes, you may get a home for less, but you'll have to work harder for it to close.

HOW LONG DO YOU PLAN TO STAY?

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Home transactions are expensive, totaling as much as 14 percent of the purchase price, by the time you buy and sell your home.

That means the period you live there has a lot to do with how you can sell or lease your home at break-even or a profit, and buy another home. Adjustable rate loans are ideal for short occupancy, because they are often a point or two lower than fixed-rate loans, but make sure the reset period is far enough away that you can sell the home before your payments get larger. If you're planning to occupy the home for years to come, or turn it into a rental after a few years, a fixed-rate loan is much better. It costs more but your payments will always stay the same (hazard insurance and property taxes can change.)

It may take living in the home two to four years or longer for you to break even at selling time. Your lender can help you run the numbers. What if you have to move before you can sell at break-even or a profit?

Strategies for a short stay

If this is your first home, you have three options once you own it – live in it, lease it as an investment, or sell it. The terms of your loan may dictate what you can do and how soon you can do it.

Mortgage interest rates, property taxes and capital gains taxes are more favorable to owner-occupants than non-occupying owners or investors:

- To qualify for a homestead interest rate, you must occupy the home you're going to buy. Otherwise, non-occupying buyers are required to put 25% down and pay a higher interest rate as investors.
- FHA loans require you to occupy your home for one year after closing. After that, you can rent it or sell it with no restrictions. The low FHA rates are intended for homesteaders, not as a subsidy for home flippers or investors, which is the reason for the restriction.
- If you have to move for any reason, you can rent your home or sell it at any time, but tax consequences may apply.

Strategies for a long stay

Many investors acquire rental properties by occupying them first. They get a better loan rate, property tax rate, and they can sell them within five years without paying capital gains. You can buy as many homesteads as you wish, as long as you stay two years or more. The longer you occupy your home, the more equity you will build. You'll pay down your mortgage, and over time, your home's value should rise. Keep your home in top condition and it will hold its value longer.

Staging a home simply means making the home as attractive as possible to buyers. It's a broad term that includes cleaning, decluttering, depersonalizing and decorating the home.

At its best, staging helps buyers see the possibilities so they are more inclined to visualize themselves owning and living in the home.

At its worst, staging can divert buyers' attention from real problems a home may have that may be expensive for the buyer to address.

There's nothing wrong with a seller presenting their home at its best - sparkling clean and ready for viewing. But before you let yourself be enchanted by the romantic table set for two, or the aroma of cookies coming from the oven, or the spa robe laid out by the bathtub, ask yourself if those are the things that really should be influencing you.

Instead, concentrate on the things that will impact your daily life – how the home flows and functions and if you'll need to make expensive repairs or updates.

When you view homes for sale that are staged, ask yourself the following questions:

Does the staging make sense? Would you really put your own furniture as close to the fireplace or as far from the window? An attractive but odd arrangement is a tipoff that the room is either not well designed or that a problem is being minimized. For example, a heavy chair may be used to discourage buyers from lifting the area rug.

Is the staging hiding a repair that needs to be made? Bathrooms and kitchens are the most expensive rooms to repair and update. Move the bottle of bubble bath and look behind the shower curtain. Is the caulk fresh? Is the porcelain tub or sink stained? Is the finish worn off of the fixtures? Look under the sink for water stains.

Is the staging overdone? Candles burning in every room or tons of air freshener may be masking pet odors. Heavy drapes may cover windows that are too small or with ugly views.

If you like the home well enough for another viewing and to make an offer, ask the seller to leave off the air freshener and to move that heavy chair aside. Take measurements and make sure your things will fit. Get the home inspected, so you know what you're really buying.

GET A HOME INSPECTION

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A home inspection is designed to give buyers a better understanding of the systems and overall condition of the home they're buying. Otherwise, you'd have to rely on your own knowledge and experience.

When you hire a home inspector, there are a few things you need to know.

No house is perfect.

A home inspection should point out questionable conditions and/or potential safety-related concerns in the home you want to buy. A home inspection should cover:

- Exterior, porch and deck (contiguous)
- Foundation and walls
- Chimneys and roofs
- Windows, doors and attics
- Electrical components and plumbing
- Central heating and air conditioning
- Basement/crawlspaces and garage

You should attend the inspection.

Walk through the home with the inspector so he or she can point out conditions to you that will go into the written report you will receive. Make your own notes so you can discuss the findings with your real estate agent.

A structural home inspection isn't enough.

A structural inspection is what most buyers typically order, which may note such things as previous termite damage, but that's no guarantee there's not a new infestation. Depending on your lender's requirements and your own need to know, you may order several types of inspections – structural, termite, and environmental.

Home inspectors may have differing qualifications.

Make sure your home inspector is an expert, with a background in plumbing, HVAC, electrical work or general contracting, or is a member of a professional organization such as the National Association of Home Inspectors, Inc. (NAHI). Ask your inspector for credentials and certifications.

Once the inspector gives you the written report, you have the information you and your lender need to make informed decisions about what needs repair, and whether you or the seller is responsible.

Before you submit an offer, have your agent pull up the most recent sold comparables (CMA) within a reasonable radius of the home, so you can compare the home fairly in terms of location, size, features, and amenities. Next, ask your agent about market conditions, so you can choose a strategy.

Strategy

In a buyer's market, discounts are common because there are fewer buyers, more properties for sale, and home prices are soft or falling. In a seller's market, homes sell quickly for full price or higher because there are plenty of buyers and few homes for sale. Whether you are in a buyer's market or a seller's market, your goal is to buy the home at a fair price. If you were the seller, what is the lowest possible price you'd accept?

Risk

Low-balling the seller is risky. If the seller feels insulted by your offer, you've lost the opportunity to negotiate. On the other hand, some sellers are simply unrealistic about their home's value. Maybe your offer will be their wake-up call. If the seller's home is offered at a reasonable price, pay asking price or close to it. A home priced to sell will sell quickly.

Is there a way to sweeten your offer with a quick closing or an all-cash sale? To show the seller you're serious, include a copy of your lender's pre-approval letter, along with a cover letter summarizing your strengths as a buyer in terms of creditworthiness, flexibility in closing, and why you love this home. Include a copy of your comparables to show why you feel your offer is a fair price for the property. If your offer is conditional, such as your need to sell another home before closing on the seller's, you'll have to find a way to sweeten the deal, such as a full-price offer. Few sellers would accept a discount and a contingency at the same time.

Reward

Your real estate professional will help you draft the offer with a price, estimated closing date, and terms, including earnest money (a guarantee that you'll perform as a buyer in good faith), final approval by your lender, and your right to have an inspection. Once your offer is negotiated and accepted, your earnest money will be sent to the escrow agent's office. Now the inspections occur, and this is where the contract negotiations can break down. During the inspection process, the inspector will tell you about the condition of appliances, heat and cooling systems, roofs, electrical and plumbing systems, etc, and if your future home is up to current city codes. You should only renegotiate a repair when it wasn't obvious before, or when a system is unsafe or not functioning. Once the seller has agreed, your offer is now a binding contract, and you'll proceed to closing.