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5 new rules for home buyers

There's no guarantee that prices have hit bottom yet - but that doesn't mean that you can't get a great deal now.

By Amanda Gengler, Money Magazine
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(Money Magazine) -- There's no telling how long the housing crisis will drag on. Here's what you need to know before you start shopping in a rocky market.

Rule 1: You can't time the bottom

Face it: The house you buy today will more than likely be worth less next year. That could get you thinking about trying to time the bottom. Resist. It's harder to do than you think, and this is the best buyers have had it in two decades, with inventories up and mortgage rates low.

Pace yourself, find the perfect place and drive a hard bargain: Ignore the seller's asking price and bid 10% below what comparable homes are selling for. If the seller balks, move on. Remember that if you're trading up, your home could sit. So sell before you buy.

Rule 2: One reason to buy now - mortgage rates

Homes are plentiful and will remain so, but financing will be getting more expensive. True, the Federal Reserve has slashed interest rates, but fixed mortgages don't directly follow the Fed. They reflect the bond market's expectations about inflation, which remains a concern. The 30-year, now at 6.1%, will likely reach mid-6% by December and 7% in 2009, says Celia Chen of Moody's Economy.com.

That means there could be a penalty for waiting to buy even if prices fall more. Today a \$250,000 loan would set you back \$1,500 a month. At 7%, a \$1,500 payment gets you only a \$225,000 mortgage. As for variable-rate loans, the spread between conforming ARMs and fixed loans is too narrow to do you much good.

Rule 3: Another reason to buy - rates on big mortgages

Mortgages in amounts greater than \$417,000 - the limit for buying by federally sponsored mortgage agencies - usually run a fifth of a percentage point above conventional products. But investors are shunning jumbos, which now average 7.2% and are unlikely to drop much this year, according to HSH Associates.

Certain jumbo borrowers could get relief, however. A new law allows Freddie Mac and Fannie Mae to buy loans as large as \$729,750 in 71 high-priced areas. So far "jumbo conforming" loans average 6.6%. The program has gotten off to a slow start; you'll need to shop around. And unless Congress acts, this bargain will disappear at year-end.

Rule 4: Don't buy cheap; buy good schools

By now you've heard from somebody who knows somebody who got a great deal on a foreclosed property. But when you buy a house, you're also buying into a neighborhood. And foreclosures tend to be bunched in areas where residents and speculators alike took out exotic mortgages to get into homes they subsequently found they couldn't afford. That's not a recipe for stability. Prices and quality of life could both decline further.

Similarly, avoid developments that popped up in the past few years. They too likely have a lot of owners with risky loans and little equity, says Mike Larson of Weiss Research. Instead, go for areas with highly rated schools. They generally fare better during downturns, and that pattern is holding today, according to a recent study by real estate site Trulia.com.

Rule 5: Make sure your agent has your interest at heart

The real estate game has a built-in conflict of interest, since the listing agent and your agent both get paid by the seller. And these days more sellers are offering extra cash to buyer's agents.

So make sure you're not being steered to a house that's better for your agent than for you. Agree up front on his commission (typically 3%) and that any extra payments will go to you, says Jon Boyd, past president of a buyer's agent trade group.

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