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First-Time Home Buyers – Be Prepared for Challenges in Current Market

As home sales fall and inventory rises, the housing market today is frequently referred to as a buyers' market. This term is quite deceptive, however, because it does not specify which buyers have the edge in the current market. The truth is that for many first-time home buyers, it is now harder than ever to break into the housing market, especially for those looking to buy in former real estate hot spots like California or Florida.

The Challenges

Part of the reason that obtaining home loans has become so difficult for first-timers is that mortgage lenders have become increasingly cautious since troubles in the subprime or poor credit market began earlier this year. As defaults and foreclosures have risen among subprime borrowers, credit for those with little or no credit and limited assets has dried up considerably. First-time home buyers often fall into this category, especially those unable to contribute a sizeable down payment.

In fact, a down payment is now essentially a requirement with most lenders. Gone are the days of easy mortgage money. "I could put anybody in a loan last year," said Stephanie Gagnon, a senior loan officer at First Capital Mortgage in San Diego, in an interview with USA Today. "In the last six months, all of the big lenders are shutting down all special programs they were working with because they've realized it's bitten them. Now I'm turning away 50 percent of my first-time home buyers. They just can't qualify."

To compound the problem, interest rates on long-term mortgage loans have risen consistently over the past several weeks, making loans even more expensive for first-time buyers.

First-time Home Buyer Options

How is a prospective home buyer to win such an uphill battle? Many are turning to less conventional means in order to overcome the current challenges facing first-time home buyers. For example, many young buyers are choosing to raid their retirement accounts to come up with a large enough down payment. These optimistic (or desperate) home buyers are banking on the fact that their homes will appreciate in value and that they will have enough time left in the work force to replenish their depleted 401k accounts. Obviously there is risk involved with this plan, but many see it as their only way to get into a home.

Others are turning to government sponsored loans in order to qualify for homeownership. FHA Loans are a common choice among first-timers; they allow for low down payments. Unfortunately, these loans are not feasible for all first-time home buyers as there are income and home price limitations. Those looking to buy in states like New York, Florida, or California would be hard pressed to find a decent home within the FHA \$417,000 conventional price limit.

Still others have decided to buy a home with friends or relatives as a means of pooling resources in order to qualify for a mortgage. And of course, there are growing numbers of potential buyers who have decided to move back in with mom and dad while they save up more money for a down payment. In fact, the National Association of Realtors has noted how few new households (first-time buyers or first-time renters) have been created this year. The



number has fallen by 70 percent since last year. “This is very unusual,” said NAR senior economist Lawrence Yun. “Even during a recession, household formations do not slow to this current level.”

The bottom line: those looking to become homeowners for the first time may have to be creative to qualify for a home loan in the current housing market, or they may simply have to wait.