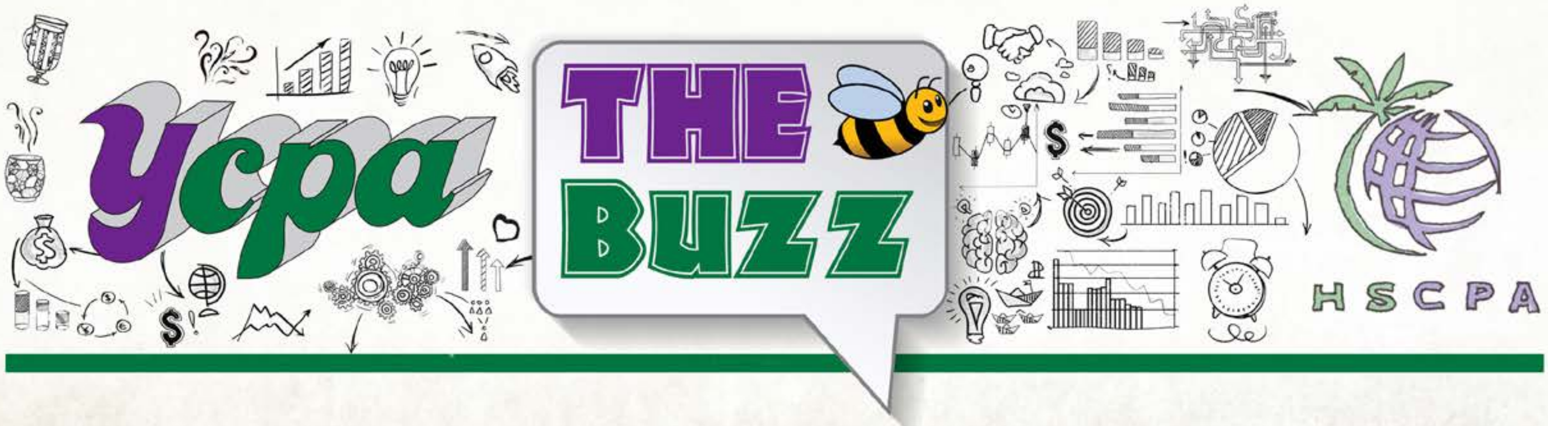

First-Time Homebuyer Tips

By Colin Lee

Many young CPAs will become first-time home buyers, hopefully, at some point in their early careers. Some sooner than others, but eventually you will become one. In one of my past articles, I wrote about how you can be a homeowner for only 3% or even 0% down in some locations, so there really is no excuse for CPAs not to eventually own a home. I don't want any of you to make the same mistakes I see other people making over and over, so here are a few tips for first-time homebuyers.

It's okay to buy something that needs a little fixing up if it's in a good location.

Many first-time homebuyers here in Hawaii have a false sense of what they want because they watch the house hunting shows on HGTV or similar channels. They are attracted to homes that are recently renovated and move-in ready. A lot of times, homes that are fully renovated in most first-time homebuyers' price ranges would be in a "less-desirable" location compared to a slight fixer-upper home for a similar price in a better location. Essentially, they want to buy the best looking home without regard for location because they fear doing a little fixing up. CPAs should know better than anyone else that buildings are depreciating assets. From a pure value standpoint, you almost never want to buy the best house in the neighborhood unless you don't mind having a less than average appreciation rate. Most first-time homebuyers will not be buying their forever homes from the get go, which is why it is even more important to buy something that will more likely have a better resale value.

You don't need 20% down. Don't be afraid of Mortgage Insurance.

Sometimes I get clients who only start talking to me after they've saved up their 20% down payment, thinking that is the requirement to buy a home or because they are afraid of paying mortgage insurance, which is normally required if you have less than 20% down. I don't say it out loud, but I always wish that they spoke to me earlier. Assuming the market is trending upwards, they could have bought the same home they wanted a few years ago and would have gained more in appreciation than what they were able to save up. For example, a few years ago, I had a client that absolutely insisted that they wanted to save up for 20% down before buying a place (which is fine if that is what you really want). They were interested in buying a $350,000 townhome and had roughly $50,000 of down payment at the time. The next year when they finally saved up 20% for the $350,000 townhome, that same type of townhome unit was selling for $375,000. Even with the extra down payment, the monthly mortgage was roughly the same as it would have been if they purchased it a year earlier. By insisting on waiting until they had 20% down, they actually wasted $18,000 on a whole year's worth of rent that they will never get back, just to get them in the same exact position they would have been in a year earlier. Wouldn't it have been better for them to put that $18,000 rent into their own mortgage? Of course, having 20% down or more is ideal, but for most first-time homebuyers that's not doable. However, I personally would recommend to wait until you have at least 5% (with an additional 1.5% for closing costs), because the costs are likely a lot higher with down payment programs for less than 5%, unless you have a VA loan.

Talk to at least two or three loan officers

Even if your family member or friend is a loan officer, I always recommend my clients to talk to at least two or three different lenders. The reason is because different lenders may have different rates and costs at different times. They can also qualify you for different dollar amounts. If you only talk to one lender, then you won't have anything to compare with. You would never know if you are getting a good rate or if you could qualify for a higher amount. When I bought my first home 8 years ago, I spoke to three different lenders. The third lender had the best rate and qualified me for around $80,000 more than the first two lenders. If it weren't for that third lender, I wouldn't have been able to qualify for the single-family home I own now.