Outlook improving for first-time buyers

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Sellers face the fact that they might not get as high a price as they expected Katie Arnold and Tim Johns are looking to buy their first house. They have two jobs, two young children, and they're living in an off-season rental in Jamestown. They first started looking for a house in Rhode Island more than two years ago, when they moved here from California.

**First-time homebuyers: What's the biggest barrier you've faced or the best advice you've received?**

Arnold, 34, and Johns, 33, who have been married for seven years, thought they'd get some relief from the sky-high housing prices on the West Coast. Instead, they arrived in the Ocean State in the middle of a boom in housing prices, and they found there was little choice in their price range, under $200,000.

They decided to wait a while, pay down some debts, and keep an eye on the market.

At first, the couple had hoped to find a house with some character and at least a small yard for their young family. They have a son, Owen, 3, and a new baby, 3-month-old McKayla. Now, they think a condominium may be their best bet.

Today's first-time homebuyers face a unique set of circumstances. Interest rates have been rising. After years of steep price increases, there is talk of a real-estate "bubble." On the plus side, the supply of homes on the market is up, and prices on many properties in Rhode Island have recently been reduced.

The overheated real-estate market is cooling down, putting buyers in the driver's seat. Buyers have more choice and more bargaining power than they have had in years.

"This is, as much as sellers want to deny it . . . this is officially, now, a buyers' market, absolutely," said Amy Mason, a sales associate with Residential Properties. Mason is a friend of Arnold and Johns and is acting as their agent. "I was telling Katie yesterday, this is a great time for any first-time homebuyer, because the inventory is massive in Rhode Island right now. It's more than double what it was a year ago."
"Frankly, it's a normal market now," said Ron Phipps of Phipps Realty. "This is a normal market, not exuberant." Phipps says the market change is "a good thing for the profession and for real estate," although he is sympathetic to sellers who may have to accept a lower price than they believed their house would fetch. "The transition is hard," he said. "A lot of sellers are having difficulty."

Even so, for most first-time homebuyers, "it's much more difficult now than it's ever been. The house prices have been escalating at an incredible rate, especially in the past five or six years," said Ari Matusiak, acting director of HousingWorks RI. "Household incomes are just not keeping up." HousingWorks is a member of a coalition behind a bill to put a $75 million initiative on the ballot in November to finance the production of affordable houses in Rhode Island.

Tonya and Gary Waldron plan to buy their first home, in Pawtucket's Darlington neighborhood, this month. The couple are buying the house with no money down through Rhode Island Housing, which is preparing to launch a new 40-year mortgage loan to help first-time buyers make their house payments more affordable.

Tonya Waldron, 26, said without the lower monthly payment of the 40-year loan, the purchase would not be possible. "That opened up the doors for us," she said. "It's made the difference."

Waldron is a cook/waitress, and her husband, 36, is a recently licensed electrician. She expressed frustration that despite their frugal lifestyle, it's been a stretch to afford a house. "We don't go out to eat. I love to cook; we stay home. . . . We don't have any outstanding debts; we're clean-cut people . . . and there's no way," Waldron said.

"The 40-year loan is a mechanism to address the fact that housing prices are pretty high today," said Chris Barnett, a spokesman for Rhode Island Housing.

Once they were approved for a loan, it took only three weeks to find the right house, Waldron said. "At first, the homes were really too expensive," she said. But then, "it seems like everywhere we looked, prices were going down."

When they first looked at their new home, "it just felt right . . . it was just a gut feeling," Waldron said. The house needs cosmetic work, she said, but there's "nothing major that we can't do."

For Katie Arnold and Tim Johns, the hunt continues. Affordability, and getting enough space for their family, are major concerns, but they don't want a featureless "shoebox."

"We need a little bit of funk to our life. The shoebox thing just doesn't work for us," Johns said. "It's too boring," Arnold agreed.
Arnold and Johns both work in East Greenwich -- Arnold is director of operations at Gold's Gym, and Johns is executive chef at Table 28 restaurant -- and they'd like to stay in central Rhode Island.

The house they plan to look at next is a condominium in a restored older home in Edgewood. Arnold and Johns have watched and waited through several price cuts, from $215,000 to $169,900.

"With everything dropping the way it is, we may be looking at single-family housing again," Johns said.

"We're just trying to get the most for our money," Arnold said.

Johns laughed. "Trying to get the most of our money, without having any," he said.

Phipps said that in the last five years, real estate has been sold on its value as an investment, but "the primary purpose of residential real estate is shelter. . . . It's a healthy way to look at real estate."

"The fundamentals of real estate don't really change," Phipps added. "Buy at a fair-market price in a good community."

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Closing costs add up

Application Fee

What it is: Payment to the lender in exchange for loan processing.

Cost: Varies, and may even be waived entirely or at least negotiated down.

Appraisal

What it is: Whenever you make a real estate purchase, lenders require an appraisal of the home in order to determine the property's value. The appraisal includes the size and physical attributes of the property, including number of bathrooms and fireplaces. Also considered are types of floors, ceilings and windows. The heating and air-conditioning systems are also part of the appraisal.

Cost: $250 to $400 for a single-family house.

Credit Report
What it is: A lender will pull your credit report from the Big 3 credit bureaus -- TransUnion, Experian and Equifax -- and will charge you a fee for that.

Cost: $30 to $45

Legal

What it is: New financing requires a new title search, document preparation, as well as other legal or paralegal services.

Cost: Varies according to the specific services provided as well as the local regulations and requirements of your lender

Loan Origination Fee

What it is: This is a charge the lender levies to grant the loan.

Cost: Usually 1% of the loan. You can ask for it to be waived or reduced.

Points

What it is: A point is equal to 1% of the amount of a mortgage. Points are fees that you pay to the lender, and can be negotiated in return for a lower interest rate -- which will benefit you for the life of the loan. You agree to pay the lender an upfront fee in points.

Prepayment Penalty

What it is: A charge contained in some mortgages to discourage early repayment, which would reduce the lender's profit. Such penalty charges are limited in many areas of the country and are often waived by financial institutions.

Cost: From zero to a fixed percentage of your mortgage balance or the value of interest for a certain time.

Survey

What it is: In some cases -- especially for any standalone family home -- a lender may require a survey. A survey is a report produced by a licensed professional that displays the boundary lines of a property.

Cost: Varies, but typically $150 and up.

Taxes
What it is: Local jurisdictions impose recording fees to enter your mortgage documents in public files; others actually assess taxes on any new mortgage financing that occurs when you obtain a home loan.

Cost: Varies

Termite Inspection

What it is: This may be required by lenders to ensure property is not infested with wood-destroying termites.

Cost: $40 to $100

Title Insurance

What it is: Lenders will usually require title insurance up to the value of their loan. If the homeowner's title is later found to be "faulty" -- meaning there's a judgment, tax lien or some other encumbrance on the title -- this assures that the party making the mortgage will be repaid.

Cost: From $2.50 per $1,000 borrowed for home refinancing up to $3.50 per $1,000 borrowed for home purchasing.

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YOUR TURN: First-time homebuyers: What's the biggest barrier you've faced or the best advice you've received?

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