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FEATURED ARTICLE

### Hunting for Real Estate Bargains Money Matters

By Martin Brown, updated 5/21/2008 at 11:09:13 PM



Looking to buy a home or condo? There may not be a better time. Never forget in the world of economics, one person's pain is another person's gain.

There is utterly no doubt that some people during the past year have been burned badly by the downturn in real estate. Just two weeks ago I responded to a question in my mailbag from a reader who wanted to know if now might be a good time to start looking. "Absolutely," I suggested. "But if you do find a bargain, can you make a qualified offer?" I asked.

A **qualified offer** is either someone bringing cash, welcomed everywhere (a pun here), or more typically, an individual who has been prequalified. To walk me through today's realities of securing a mortgage in a credit market that has gone crunch, I sat down with Greg Bechelli, a Certified Mortgage Planner, at Residential Pacific Mortgage.

Bechelli, who has been a top performing mortgage broker for over ten years in one of the nation's most costly real estate markets, the San Francisco Bay Area, has witnessed in recent months a sea change in lending practices. Gone are the days of easy credit as we have returned to a more traditional model of ten or twenty percent down payments to secure a loan. If, however, you are a single woman with a **steady employment record, some savings, and a respectable credit score**, you should consider a real estate purchase at a time when the market is depressed and homes and condos have fallen as much as 25% in certain areas.

Having said that, you should keep in mind that depending on your area, these "fire sale" prices are not necessarily a here-today-and-here tomorrow-proposition. There are plenty of individuals who have seen their lowball bids get pushed aside as higher and better offers came in. This is particularly true in what lenders call **REOs**, which simply means "Real Estate Owned" by a bank or other lending institution after the owners have walked away.

Homes that sold two years ago for \$435,000 are getting bids as low as \$325,000. Often, however, those bids are pushed aside for better offers. In one such example covered in a report by an online financial site last week, a home in Sacramento, California that had sold two years ago for \$435,000 received nine bids and was sold for \$365,000.

Smart shoppers know, however, that losing out on one possible bargain doesn't mean they should give up. It means they need to work harder.

Naturally in a market tail spin like this everyone wants to know when we have hit bottom. Naturally there are no guarantees because this month's bottom can be broken through two months from now. But you can get a good idea of where that bottom lies by tracking the lowest foreclosure sales either in your area or the location where you plan to buy. Have an experienced real estate agent assist you in securing and interpreting these statistics is very helpful. (See my "Ask The Expert" column for smart tips on securing a top realtor to help you in your search)

Supposing that you have scoped out properties that are ripe for a cost savings offer, as more buyers crowd in to snatch up bargains you don't want to be merely a witness to their success. To keep that from happening, you need to know your financing situation now. Just how much of a loan might you qualify for, and what is a responsible loan for you to take on given your current income.

And that leads us back to Greg Bechelli, who is helping SMW's theoretical single woman buyer and the property that she is hoping to purchase:

We started with a reasonable national market average of a purchase price of \$225,000. Bechelli explains what happens then to turn the dream of home ownership into a reality.

"I would have an initial meeting to review her current gross monthly income, employment history, rental history, current assets, and any credit issues that may be impacting her credit scores," he explains.

"Then I'd review her current debt load. How much is she currently paying in rent? Does she have a car payment? Is she paying off student loans or carrying credit card debt? Within thirty minutes I'm able to analyze her current and projected debt-to-income ratio (for qualifying for a home purchase). An acceptable total debt ratio is typically in the range of 36-45%. This would include her projected monthly housing payment of principal and interest, property taxes, homeowners insurance, and mortgage insurance (if applicable), and other current monthly debt car payments, etc.

"This ratio can vary based on other compensating factors (credit scores, cash reserves, total loan(s) to value, etc.) I will then ask her to gather up her most recent 2 years' W2's (tax returns for self-employed), pay stubs covering her most recent 30-day period, and most recent statements for her asset accounts which might include checking, savings, stock, mutual fund and retirement accounts. I then complete a loan application, pull a credit report and submit the file to a lender for a formal pre-approval."

Having said that, Bechelli adds the all-important kicker as to why this is such a smart exercise to go through: "When competing for a property, a formal preapproval will give a buyer a critical competitive advantage over someone not yet pre-approved for a home loan."

Naturally I wanted to know what constraints today's credit crunch has placed on the availability of home loans.

Bechelli says, "In the past, it was relatively easy for an individual to secure up to 100% financing with little or no documentation for her current income and assets. Many loan programs also allowed an interest only payment option, with the borrower qualifying at the interest only payment rather than a fully amortized principal and interest payment. This made it relatively easy to qualify. Most of these programs have been discontinued. In general, lender underwriting guidelines in today's more volatile market are more stringent. With the exception of a few lenders, a borrower must verify their employment, document their income, have a decent credit history, and have some cash to cover a down payment and closing costs."

Finally I asked Bechelli to get down to giving me a practical set of numbers that our single-minded woman might be facing when it comes time to crunch the numbers and see if all this can actually work for her. "For a hypothetical purchase price of \$225,000, with a down-payment of \$45,000 (20%), and a loan amount of \$180,000 (80%), with an interest rate of 6.00%, an estimated total housing payment of \$1350, and no other secondary debt (car, credit

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card, etc.), she should be making approximately \$3375 in gross monthly income to qualify at a 40% total debt-to-income ratio," explains Bechelli.

He also recommends that you have two years of employment in a similar career position. A degree of stability in your career is important to lenders. Of course, there are exceptions to this.

As for a down payment Bechelli says, "This might be in the 3-10% range. Even in this volatile credit market, there are FHA guaranteed loans that can lend up to 97% of the purchase price (depending on the maximum allowed loan limit per county where the purchase is being made). Using a hypothetical \$225,000 purchase scenario with a down-payment of \$6,750 (3%), and a loan amount of \$218,250 (97%), with an interest rate of 6.00%, an estimated total housing payment of \$1,680, this borrower should be making approximately \$4200 in gross monthly income to qualify at a 40% total debt-to-income ratio." Bechelli adds, "There are many, great financing options available for today's qualified buyer. Right now, interest rates are still near historic lows."

By now, I assume, you're no longer wondering why it can be beneficial to work with a Certified Mortgage Planner, since individual banks, too, are happy to have you make a home mortgage application. But they are not there to objectively tell you who has the best rates, or how you can put down less money to secure a loan. A person who can secure financing for a variety of different lenders, like Bechelli, is compensated for their work by the lenders and is generally better at telling you all the current realities of a given market.

The bottom line: There are a lot of women sitting out there today who have convinced themselves that they could not qualify for a home loan. If you are one of those women, you owe it to yourself to find out if that is actually the case.

Only the next twelve months will tell us if we are now at the bottom of this real estate price correction. I suspect that prices will start moving back up by next year. If that's the case, you owe it to yourself to spend an hour of your time, meet with a Certified Mortgage Planner in order to find out where you stand. If you have some extra work to do in paying down extra credit card debt, find that out now, and get prequalified before prices and interest rates start floating up yet again.

And don't forget this one simple truth: Prices that are too high will correct and come down, and prices that are too low will also correct and they will come-up.

Smart buyers strike when the prices are low!

**Additional Reading**  
**Can Money Buy Happiness**  
**The Ins and Outs of Credit Card Scores**  
**Market Jitters: How to Keep Calm in a Down Market**



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