

It's no lie: The real-estate and financial markets are a mess right now. But that doesn't mean there aren't people looking to buy and sell homes. If you're one of them, here are tips to help you weather current conditions. With bank failures and bailouts topping each day's headlines, it's hard for most buyers and sellers not to get discouraged. But for many, the show must go on, due to job relocation, divorce, space or school needs. MSN Real Estate asked mortgage and real-estate experts for their advice to buyers and sellers caught in the market's downward spiral. Here are their top five tips for those navigating the mortgage crisis.

5 HOMEBUYER TIPS

For some buyers, it is the best of times and the worst of times. Homes in many areas are selling for as little as half of what they were fetching two years ago. But, with the number of foreclosures continuing to rise in many markets, it's also hard to determine how much lower home values will drop. The lending climate is difficult, too. While rates on many types of loans are at historic lows, fewer people are qualifying for them. So, experts say, it pays to prepare a little before you dip a toe in these treacherous waters.

1. Amass a decent down payment, but not at the cost of your emergency fund

After the excesses of the past few years, brokers say, you will need a substantial down payment to get good financing. The no-money-down era of lending is gone, and most buyers should expect to put anywhere from 5% to 20% down, unless they qualify for an FHA loan, which requires 3% down (3.5% as of Oct. 1.) The less you put down, the more you're going to pay for mortgage insurance. But be careful not to drain your bank accounts, either, in this age of financial and job uncertainty, says Rhonda Porter, a certified mortgage planner. She recommends that buyers practice making six months of mortgage payments into a bank account to use as an emergency fund. "This isn't the time to be buying a house and tapping everything you have in the bank," Porter says.

2. Choose a loan originator wisely

Selecting a good mortgage broker or lender is one of the most critical and difficult tasks for buyers, since there are currently no national licensing standards in place. Porter recommends that buyers start out the old-fashioned way, by taking referrals from friends and colleagues. Buyers should ask how long a broker has been in business, do Internet searches to see if his or her name is mentioned in unflattering or criminal ways and check his or her record with state regulatory agencies. Porter recommends looking for originators that are FHA certified because they have more hoops to jump through to get that status and because it gives buyers the option of an FHA loan. These have had favorable rates compared to other loans lately and they require smaller down payments. Once buyers have narrowed their list to three names, they should interview these brokers or lenders and get pre-qualified with at least two of them to see what range of options they can offer. A good broker, she says, will ask a lot of detailed questions about your income and assets up front, so there will be less of a chance for surprises when it is time to get approved for a specific purchase.

3. Get pre-qualified as early as possible

There are a couple of reasons for this, brokers and agents say. First, buyers need to know how much house they can afford and what kind of money they will need for down payment and closing costs, says Miami real-estate agent Sandra Fernandez of Realty World International Gateway. "I tell my clients, 'Let's do this right from the beginning. Let's make sure you qualify, and make sure you know what amount you qualify for,'" she says. There's no way to get good estimates on rates, brokers say, unless you pre-qualify, because the lending landscape has changed dramatically. Clear this hurdle and ask for good-faith estimates and the costs associated with those rates to use in your calculations. This is simple and doesn't require a lot of documentation. That comes later, when you get pre-approved for a purchase. Getting pre-qualified early also can give borrowers with decent credit time to make small adjustments that will affect their credit score, and get better rates. Credit scores are put in bracketed ranges for pricing, Porter says, so missing a range by a digit or two, could set you back 1/8 to 1/4 of a point over the life of the loan, she says, and add to your closing costs. Get all your documentation together — pay stubs, bank statements, etc. — before you start hitting open houses, says Holden Lewis, who covers mortgages for Bankrate.com.

4. Reduce your exposure to risk

Once you have selected a mortgage broker or lender, it's time to start checking out houses. Make sure your agent has done all his homework about the areas you're interested in before you take your first tour. In addition to analyzing trends in value, agents should be scanning foreclosure data (from notice of default to bank repossessions) to make sure they know where the deals are, and whether or not there are so many foreclosures in the neighborhood that they'll pose a threat to home values in the years ahead. In foreclosure-riddled Homestead, Fla., Fernandez says, some lenders are accepting half of what a property sold for several years ago, even though some properties in the area are listed for much higher. Once you've found a property you want to make an offer on, ask for a contingency in the contract that lasts longer — through closing if you can manage it — that will allow you to get out of the deal without penalties if your financing falls through, says Jon Eisen, a San Diego mortgage broker and certified financial planner.

5. Get a rate lock — with a key

The turmoil in the financial markets has had rates really fluctuating, making it difficult to know when to lock in a rate. Your best strategy is to work with a lender who offers a float down. This is a chance to renegotiate your rate if it drops substantially — by a quarter-point or more, Porter says. So, before you settle on a lender, ask if it provides this kind of flexibility to borrowers. That said, Porter adds, you still need to lock in a rate within 30 days of closing.

5 TIPS FOR SELLERS

It will come as no surprise to most sellers that buyers have the upper hand in today's market, with its large supply of houses. But there are things that sellers can do to make the process less painful.

1. Wait, if you can

In very troubled markets such as Las Vegas, Phoenix, South Florida and Southern California, you're better off waiting to sell — if you can manage it. With half the homes for sale in the Southern California market identified as bank repossessions, it would be harder for buyers in this area, for example, to fetch a great price for their home. With rents strong, it makes more sense for some homeowners to rent out their home, rather than sell and take a loss. Be aware that renting out your home could increase your home insurance. Also, you would have to report the rental income on your taxes, though you'd be able to deduct things such as including mortgage insurance, homeowners association fees, maintenance, etc. However, if you are moving up to a larger home, agents say, and have lived in your current house for at least five years, you might be better off acting now. The reason? You can score a bargain on the more-expensive house you're moving to at the same time rates for conforming loans are relatively low. "You are going to give someone worse treatment on the other end," says Lee Tessier, a Baltimore Re/Max agent.

2. Get your home in great shape, but at minimal cost

With so many houses on the market, curb appeal is more important than ever, Fernandez says. You need buyers to be impressed so they'll want to come inside for a look. And having your house in pristine shape definitely sets it apart from a lot of the trashed foreclosures on the market. However, spending a lot of money to whip your home into shape isn't recommended in the current low-ball market. So, focus your efforts on small projects that make your house seem fresh and less of a fixer.

3. Price it right

Be realistic and you will be rewarded. In many markets, homes priced just under market value are getting multiple offers, agents say, while their higher-priced competitors are getting low-balled. Fernandez recommends sellers get an appraisal of their property done before they set a price with their listing agent. And sellers who are in a hurry to sell could offer a home warranty as an incentive, or offer to pay a portion of closing costs to help buyers who may just squeak through on financing. In her troubled Florida market, Fernandez says, some sellers are even offering bonuses to agents who bring in a buyer.

4. Don't go FSBO

Houses no longer sell themselves. You need someone with a lot of experience to give you advice and a lot of time and energy to do everything necessary to sell your home. Look for a hard-working agent who will give it to you straight on pricing, but still protect your interests once offers start rolling in. Here are a few things to look for:

Find someone who is accessible and returns calls quickly.

Select an agent who will give your home a real Web presence with lots of photos or a virtual tour.

Pick someone willing to do open houses for potential buyers (not just brokers).

Find someone who sells a lot of homes in your area. Ask for recommendations at your local board of Realtors or ask receptionists at top brokerages. These established agents are better networked and, therefore, usually better able to land a buyer.

5. Ask for a pre-approval letter with any offers

With so much turmoil in the lending market, mortgage brokers say sellers should take measures to protect themselves. Make sure the buyer has access to solid financing, before you limit your options. And just as buyers may seek a longer contingency for financing, that's something sellers should avoid. If the buyer won't go for that, you could ask for his earnest money to be released in various stages during the purchase process so there's less chance that you waste time and money, mortgage broker Eisen says.