

## Get Ready Series #4

# Down payment options

A down payment is your initial investment in your home, and for many would-be homebuyers, it's the most daunting hurdle. How much should you put down, and what kind of mortgage options can help you afford to buy sooner or expand your choices?

### How much should you put down on a house?

Only you can decide how much of your savings to use for a down payment and how much to reserve. A larger down payment generally means a smaller monthly payment and more equity. A smaller down payment may mean a larger mortgage payment each month, but it could also help you afford to buy a home sooner or expand your homebuying options.

### Don't put all your eggs in one basket

It's rarely a good idea to sink all your savings into a down payment. Your lender may even require you to keep some money in savings after you close because they have a vested interest in knowing that you can weather an unexpected expense and still pay your mortgage.

When deciding on a down payment, think about reserving funds for:

- Emergencies (experts recommend 3 to 6 months' living expenses)
- Expenses related to buying your first home (repairs, renovations, new appliances or furniture)
- Other investment goals (college, wedding or retirement)

### The 20% myth

It's a common misconception that you must put down 20% or more. Doing that means you won't need to pay for mortgage insurance (MI), but you may have to save a lot longer or strain your bank account to reach that threshold.

### Options that can help you meet the down payment challenge

One or more of these options might help you find more funds for your down payment and/or allow you to put less down on a house. They are not mutually exclusive – you may use MI, gift funds and down payment assistance on the same loan.

### Low-down-payment mortgage options

Conventional loans with private mortgage insurance, FHA loans or VA loans allow you to put less than 20% down on a house. Read more about these options on the next page.

### Gift funds

If you have family members who want to help you become a homeowner and can afford a financial gift, excellent! Just be aware of rules that may apply to such gifts. For example, your lender may require a gift letter from the donor that says you don't have to pay the money back. If some of your down payment will be from a gift, check your lender's requirements.

### Down payment assistance

Many programs across the country provide down payment assistance to qualified borrowers. Often this assistance comes in the form of a grant or a forgivable second mortgage loan – money that doesn't need to be repaid as long as certain conditions are met. Talk to your lender about down payment assistance programs in your area, as well as your eligibility.

### Low-down-payment mortgage options

The minimum down payment allowed by most lenders is 3%-5% of the purchase price of a house. For down payments less than 20%, lenders will most likely require the loan is insured by one of the following entities:

	Private mortgage insurer	Federal Housing Administration (FHA)	US Department of Veterans Affairs (VA)
<b>Eligibility</b>	Insures conventional loans Typically insures loans with credit scores 620 and above Borrowers with better credit scores typically pay less for MI on a conventional loan than for MI on an FHA loan	Government program backed by taxpayers Helps homebuyers with lower credit scores, including those below 620 House must be appraised by FHA-approved appraiser	For active members, veterans or reservists of the US armed forces Specific home loan benefits depend on type and length of service
<b>Down payment minimum</b>	As little as 3%, depending on loan terms	As little as 3.5%, depending on credit score	As little as 0% (sales price can't exceed appraised value of home)
<b>Mortgage insurance (MI) premiums</b>	Most common option is a monthly premium paid by borrower with no upfront payment  <b>Other options:</b> Pay all or portion of MI premium as a lump sum at closing or finance it into loan amount (reduces or eliminates monthly premium) Lender pays MI premium but may increase loan fees or interest rate	<b>Includes 2 types of MI premiums:</b> Monthly MI premium (MIP), paid with your monthly mortgage payment. Amount based on size of down payment and length of home loan Upfront MIP is 1.75% of home loan amount (can be rolled into mortgage but will increase the loan amount as well as the monthly mortgage payment)	Borrowers don't pay MI but must pay a funding fee
<b>MI premium cancellation</b>	Borrower-paid monthly premium can usually be cancelled once loan amount falls to 75%-80% of home's value	If loan financed with <10% down for >15 years, you can't cancel monthly MIP and will pay MI for the life of the loan	N/A

Ask your lender to thoroughly explain your low-down-payment mortgage options, including VA loans (if applicable), FHA loans and conventional loans with private MI.



**WELCOME HOME**  
POWERED BY RWM HOME LOANS