

The Down Payment

The amount you have available for a down payment will affect what types of loans for which you can qualify. Down payments typically range from 3 to 20 percent of the sales price for the property.

Tips for Accumulating a Down Payment

- **Save**
Look for ways to reduce your monthly expenditures to save toward a down-payment. You could enroll for an automatic savings plan at your bank to have a portion of your payroll automatically transferred into savings. Most people save a couple of years for their down payment.
- **Borrow the down payment from your retirement plan**
Check the provisions of your retirement plan. You can borrow funds from a 401(k) plan for a down payment or make a withdrawal from an Individual Retirement Account. Be sure you understand the tax consequences, repayment terms and/or possible early withdrawal penalties.
- **Move**
You may be able to save additional funds if you can move into less expensive housing.
- **Reduce other higher interest rate debt**
Paying off credit cards will initially reduce your savings, but the money you will save from higher interest rates will pay-off in the long run.
- **Make a deal with the seller**
In some circumstances, it is appropriate to ask the seller to carry a second-mortgage to cover your down payment. Typically, you will pay a slightly higher rate for this second mortgage.
- **Sell some investments**
- **Get a second job and save your earnings**
- **Skip a year's vacation**
- **Gift from Family**
Parents and other family members are often anxious to help children buy their first home and may have the means to give you a gift of money for a portion or all of your down payment.

Alternative Sources

- **No-down and low-down Mortgages**
 - **FHA Loans**
The Federal Housing Authority (FHA), which is part of the U.S. Department of Housing and Urban Development (HUD), plays a significant role in helping low- to moderate-income families qualify for mortgages. FHA assists first-time buyers and others who would not qualify for a conventional loan, by providing mortgage insurance to private lenders. Interest rates for an

FHA loans are usually the going market rate, while the down payment requirements for an FHA loan are lower than conventional loans. The required down payment can be as low as 3 percent and the closing costs can be included in the mortgage amount.

- **VA Loans**

VA Loans are guaranteed by the U.S. Department of Veterans Affairs. Service persons and veterans can qualify for a VA Loan, which usually offers a competitive fixed interest rate, no down payment and limited closing costs. While the VA does not issue the loans, it does issue a certificate of eligibility required to apply for a VA loan.

- **Piggy-back Loans**

A second mortgage that closes with the first. Often the first mortgage is for 80% of the purchase price and the "piggyback" is for 10%. The home buyer covers the remaining 10% with their down payment. (Some lenders will write a second mortgage of 15% or even 20% of the purchase price.)

- **"Carry Back" Mortgage**

In the case of the seller "carrying back a second mortgage", the seller loans you part of his or her equity. In this scenario, you would finance the majority of the loan with a traditional mortgage lender and finance the remaining amount with the seller. Typically you will pay a slightly higher interest rate on the loan financed by the seller.

- **Housing Finance Agencies**

These agencies offer special loan programs to low- and moderate-income buyers, buyers interested in rehabilitating a home in a targeted area, and other groups as defined by the agency. Working through a housing finance agency, you can receive a below market interest rate, down payment assistance and other incentives.

- **The primary mission of Housing Finance Agencies is to boost home ownership in targeted areas, among first-time buyers and those with little money for down payments. Most of these non-profit agencies were funded with state government seed money and now operate independently.**

Click [here](#) for a list of Housing Finance Agencies.

- **Documenting Your Down Payment**

Documenting that the down payment comes from your savings and that you will have savings and/or assets over and above the down payment gives the lender confidence in your strength as a borrower and your ability to repay the loan.

Take extra care to document the sources for any monies to be used for the down payment or closing costs.

Acceptable Down Payment & Closing Costs Sources

- Cash in a bank account
- Mutual funds / stocks / IRA / 401K
- Proceeds from the sale of another property
- Gift from an immediate relative

Click [here](#) to learn more about verifying your down payment, closing costs, income and debt.