

# **How to come up with a down payment**

*Zero-down mortgages are fading as lending rules tighten. If you lack the cash to get into that new home, consider these 12 options along with some buying strategies.*

*Not long ago, no-down-payment loans were the height of fashion for homebuyers. But now that lenders have tightened their standards, borrowers once again are expected to "put some skin in the game," to use a favorite industry catchphrase.*

*That "skin" refers to the borrower's own cash, and it means down payments are definitely back in style.*

*The chief advantage of a down payment today is simply the ability to qualify for a loan, as only a handful of so-called zero-down loan programs still exist. Yet down payments have other benefits, too.*

*The more money you put down to buy a home, the smaller your monthly payments will be, explains Greg Gwizdz, the national sales manager at Wells Fargo Home Mortgage in Des Moines, Iowa.*

*A buyer's down payment becomes a homeowner's instant equity when the purchase closes, and that equity can be borrowed against with a home-equity loan or line of credit. Guidelines to qualify for these loans have become much stricter, however.*

*And, Gwizdz adds, many first-time homeowners are "surprised by the true cost of owning and maintaining their home." So they should keep some reserves rather than allocate every dollar to their down payment. Some loan programs require cash reserves for this reason.*

*Other benefits of a down payment include:*

*Borrowing less money to buy the home.*

*Shopping among more lenders, loan originators and loan products.*

*\* Getting a lower interest rate.*

*Paying less for mortgage insurance.*

*Avoiding mortgage insurance altogether if the down payment is at least 20% of the home's purchase price.*

## **How to get a down payment**

*Many homebuyers have difficulty coming up with a down payment. Here are a dozen ways to do it:*

*Set up an automatic saving plan.*

*Get a gift from your parents, grandparents, other relatives or friends.*

*Sell a car, boat, motorcycle, collectibles or other assets.*

*Liquidate stocks, mutual funds, savings bonds or other investments.*

**\* *Allocate your income tax refund.***

*Take a loan from your 401(k) retirement plan and repay yourself with interest.*

*Withdraw funds from your 401(k) plan, subject to taxes and penalties.*

*Collect on a loan that you made to someone else.*

*Get a bonus from your employer.*

*Explore homebuyer programs for public servants if you qualify.*

*Apply for a state or local government down-payment program.*

*Use a private down-payment assistance program.*

*A down payment needs to be "sourced and seasoned," Gwizdz says. That means the lender needs to know how you obtained the funds and that you've had control of those funds for at least several months.*

*Gifts and seller's concessions are acceptable, up to the percentage allowed by the loan program, but borrowed money can't be used as a down payment, as it is debt that has to be repaid.*

## ***Government-backed programs***

*Two government-run programs are designed to aid homebuyers who haven't saved much for a down payment. The Federal Housing Administration (FHA) offers mortgage insurance that allows qualified buyers to purchase a home with a 3.5% down payment, all of which may be a gift. The U.S. Department of Veterans Affairs offers a home-loan guarantee program that helps military veterans buy homes with no down payments.*

## ***Down payment or closing costs?***

*Should homebuyers who have limited funds allocate more money toward their down payment or set aside some share of the total for closing costs?*

*The simple answer is that the down payment should be the priority, up to at least 5% (or 3.5% for an FHA-insured loan) of the home's purchase price. Thompson explains why: "It doesn't matter if they have the money for closing costs if we can't show (the lender) that they have the money for the down payment."*

***If you've saved enough for a down payment but not closing costs, here are some options:***

- ***Ask the seller to pick up the tab.***
- ***Pay a higher interest rate in exchange for lender-paid closing costs.***
- ***Wait to buy a home until you've saved more money.***

***If you want the seller to pay the costs, you should discuss that concession upfront before you sign a purchase contract, because payment of costs is a negotiable term that affects the seller's net proceeds from the transaction, Thompson explains.***

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