

UNDERSTANDING THE { MORTGAGE PROCESS }

Down payment

For most first-time home buyers, the biggest challenge is coming up with a down payment. But it may not be as hard as you think.

1 You probably don't need 20 percent down.

On a \$200,000 home, that's \$40,000 - and well out of reach for many first-time buyers. According to the National Association of Realtors®, about 60 percent of today's first-time buyers actually make a down payment of 6 percent or less - but many younger buyers are unaware of this.

2 Your down payment is related to the loan types you qualify for.

- **GSE-backed loans (Fannie Mae and Freddie Mac)** are available to qualified buyers with as little as 3 percent down.
- **Federal Housing Administration (FHA) loans** are often the best option for first-time buyers as they are easier to qualify for, offer lower interest rates and require as little as 3.5 percent down.
- **Veterans Administration (VA) loans** are available to qualified active duty military and veterans and require no down payment or private mortgage insurance (PMI).
- **U.S. Department of Agriculture (USDA) loans** are available to qualified buyers in some rural and suburban areas and offer low interest rates with no down payment.

3 Your down payment may affect your interest rate.

Buyers willing to make a larger down payment are positioned more favorably with lenders and may earn a lower mortgage interest rate.

4 You might need PMI.

Private Mortgage Insurance (PMI) is generally required for loans with less than 20 percent down. It's designed to protect the lender in the case of default. PMI is typically .3 to 1.5 percent of the original loan value and is usually paid monthly as part of the mortgage payment. While PMI allows you to get into a home with a lower down payment, be sure to factor in PMI when calculating how much home you can afford.

5 Don't empty your savings.

To get to closing, you'll need to pay homeowners insurance, closing costs, inspections and possibly property taxes. Once you're in, you'll likely want or need things like furniture, blinds or a lawn mower. And you should always keep a cushion for unexpected expenses like appliance repair or replacement. Also, make sure you are saving your down payment money in a low-risk place, like a saving account or certificate of deposit (not an investment vehicle like stock).

6 Pre-approval is most important.

In today's low inventory market, a buyer who is pre-approved for a mortgage is more desirable to a seller than a buyer who offers a larger down payment - and is not pre-approved.

HOW MUCH WILL YOU NEED?

Meet with your Allen Tate Mortgage Consultant and find out.