Down Payment Got You Down?

For many Americans, coming up with a down payment for their first home can be a major roadblock--and quite often the reason for renting, rather than owning a home. A down payment is the difference between the home's purchase price and its mortgage amount. The percentage of the sale price must be paid up-front and can vary by lender, location, and loan program. A higher down payment generally translates into lower than interest rate requirements.

Typically, a down payment comes from personal cash savings, but it can also be a gift that is not to be repaid, or borrowed amount secured by assets. While conventional loan down payments may be close to 20% of the sale price, government loans typically have lower down payments requirements. This allows potential homebuyers who normally cannot meet down payment requirements an opportunity to qualify for a mortgage. Keep in mind that down payments that are less than 20% of the sale price typically require mortgage insurance payments.

10 Things to Know Before Buying a Home

1. Before you start looking for a home, get pre-qualified for a loan. Banks, credit unions, and mortgage bankers make home loans; mortgage brokers process loans through a variety of lenders. The lenders will take an application, process the loan documents, and see the loan through to the funding stage.

2. If you have marginal or bad credit, consult your lender. You may be able to qualify for a loan depending on how long ago and what reason(s) caused the bad credit.

3. You will need a down payment. Down payment requirements vary depending on the type of loan. You may also qualify for federal or local down payment assistance. Consult your real estate agent.

4. You will need funds for closing costs. Closing costs are charges for services related to the closing of your real estate transaction. They include, but are not limited to: Escrow fees, title policy insurance fees, mortgage insurance fees, fire, flood, and homeowners insurance, county recorder fees, and loan origination fees. Consult your lender for an actual estimate of these costs.

5. Some loans have "points" and some do not. A point is a loan origination fee equivalent to 1% of the loan amount. Together with the interest rate, they constitute the yield on your loan for the lender.

6. Mortgage rates can be fixed or adjustable. Which one is right for you depends on whether mortgage rates are at a high or a low point when you purchase, and how long you plan to live in the house.

7. There are two main types of loan categories: Conventional and Government. Conventional mortgage loans are available with fixed or adjustable interest rates, while government loans include FHA and adjustable rate mortgage loans, and VA fixed rate mortgage loans.

8. If you are a low-to-moderate income homebuyer, there are special programs designed to help you. These loans are available through private lenders, as well as state housing agencies.

9. You may have to pay mortgage insurance. Mortgage insurance protects the lender from potential loss if you should default on your mortgage loan payment. Mortgage insurance is always required on FHA mortgage loans.

10. Many organizations offer home loan counseling to prospective homebuyers. They will cover home selection, REALTOR® services, lenders, loan programs, homeownership responsibilities, saving for a down payment, and other important pieces of information.

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