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Real Estate Advisor

Down-Payment Got You Down?

For many Americans, "coming up" with a down-payment for their first home purchase 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. This 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 loan 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 a 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-payment requirements. This allows potential home-buyers 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.

Down-Payment Assistance Programs

Fortunately, there are programs and organizations that can help you with your down-payment requirements:

Federal Government Loan Programs - Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) may offer assistance in paying your up-front cash requirements. These programs can significantly reduce your down-payment requirements. You may also want to contact your local Department of Housing and Urban Development (HUD) Community Builders to find out what local down-payment assistance programs are available.

State Housing Authorities - State agencies may offer down-payment assistance programs in your state.

Private Mortgage Insurance - Private insurance companies that offer you the opportunity to finance some of your down-payment requirements. This allows lenders to accept lower down-payments than they would normally allow.

10 Things You Should Know Before Buying aHome

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 may need a down-payment.** Down-payment requirements vary depending on the type of loan. Many down-payment assistance programs exist. These programs may loan or grant you the funds necessary for the down-payment.

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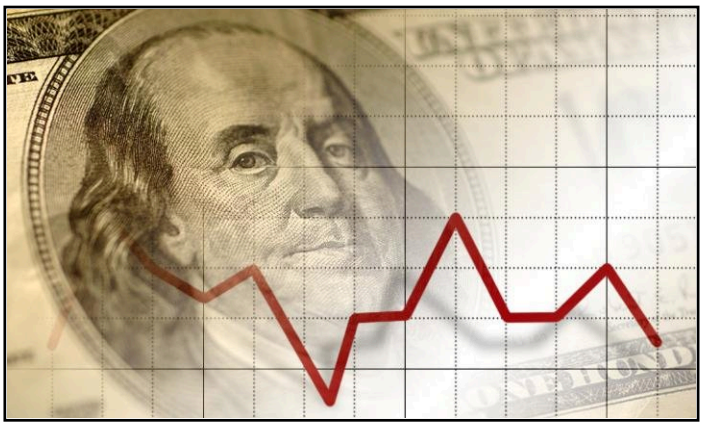
Consult with a lender about programs available in your area.

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 issuance fees, mortgage insurance fees, fire, flood, and homeowners insurance, county recorder fees, & 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 on how long you plan to live in the home.

7. There are two main types of loan categories. ***Conventional Loans.*** Conventional mortgage loans are available with fixed or adjustable interest rates. ***Government Loans.*** These include FHA fixed 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 local and 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.

THE Trivia Block

What is the only state in the U.S. with a one syllable name?

Maine!

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