

## Choosing a down payment

By ALEX MASON | Green Shoot Media

Buying a home may be the biggest purchase of your life, so you want to make good decisions every step of the way.

The buying process is more than simply signing on the dotted line. You still have many important factors to consider and must take careful consideration with all you do.

The down payment is not a cut-and-dry deal. This is one aspect of the home buying process where the buyer, the seller and the bank must all agree.

### HOW MUCH SHOULD I PUT DOWN?

The answer will likely be the amount that you can afford. Persons buying homes with a surplus of cash may opt to put down 20 percent or more.

In general, the higher the down payment is, the lower the monthly payments will be.

However, in some cases, the total purchase price will remain high due to the interest rate offered by the bank.

Always check and see how different down payments will affect the interest you pay.

If you wish to do business with a particular lender and roll your monthly payments back, one good option is to buy down the loan with points.

### PAYING POINTS

The process of buying down points allows a borrower to gain access to a better interest rate, which will cut down the total mortgage balance over the life of the loan.

A buyer with some extra cash available for the purchase of a



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The amount of your down payment can affect everything from your monthly payment to the interest rate on your mortgage.

home will save money in the long run by buying down a few points.

When buying down points, be sure that the payout does not leave you in a financial lurch. Buy only what you can comfortably afford with the option of refinancing the loan at a later date.

### GOVERNMENT ASSISTANCE

Freddie Mac and Fannie Mae are excellent resources to find bargain priced homes that require a minimal down payment.

Typically, a borrower may put down just 5 percent of the real

estate cost and enjoy a nice discount on quality housing. Many Realtors and real estate brokers are experts in the Fannie Mae and Freddie Mac field.

To get started and save big bucks, contact your local real estate professional for assistance in housing from the Department of Housing and Urban Development in sealing the deal on the loan.

### RENT-TO-OWN HOME PURCHASE

Rent-to-own agreements, also known as lease-to-own agreements, can get you into a house or condo in the blink of an eye.

This innovative open door allows the home owner and renter to set their own terms and conditions that may lead to the purchase of the leased property at a later date.

In many instances, a seller may accept a full or partial down payment taken from the monthly rent, thus making the down payment a snap if the renter would like to buy the home later.

The down side is that the buyer will have minimal choices when looking for a place to live.

However, the upside is the potential for an easy down payment that is ideal for buyers with a low cash flow, or those who need time to improve their credit.

### REAL ESTATE 101

#### Down Payment Tips

- In general, a larger down payment will reduce your monthly payments
- If you don't have enough cash for a down payment, a rent-to-own option may be a good choice for you while you save money.

### THE BOTTOM LINE

In the end, the bottom line of how much you put down on a new home will be largely dictated by your financial situation.

When making that decision, be sure to factor in the closing costs, moving expenses, new furnishings and appliances, and set aside as many monthly mortgage payments as you can.

In addition, home buyers who have not sold their old home and must continue to pay the mortgage need to be practical and calculating when juggling two loans.

Always leave yourself plenty of financial leverage for emergencies and find your perfect balance of down payment and monthly mortgage payment.

If you don't have peace of mind with your current situation, walk away. It is much better to downsize your home and buy something cheaper than to lie awake at night and worry about what you have done.



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### HOMESWISE GLOSSARY

**Cash reserves:** an amount sometimes required of the buyer to be held in reserve in addition to the down payment and closing costs; amount is determined by lender

**Earnest money (deposit):** money put down by a potential buyer to show that they are serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal. During the contingency period the money may be returned to the buyer if the contingencies are not met to the buyer's satisfaction.

**SOURCE:** U.S. Department of Housing and Urban Development

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