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Do You Think That a Down Payment Is Always Required? Think Again.

Let's Talk Home Financing

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One of the obstacles to homeownership has long been the ability to save enough money for a down payment and closing costs. Most assume that they must have 3 to 5% or even 20% of the purchase price of a home as a down payment. While true in the past, that is no longer the case.

I asked **Jaxzann Riggs**, owner of **The Mortgage Network** to explain down payment assistance programs ("DPAs").

One option provides a second loan that can cover the entire minimum down payment (up to $15,000), with 0% interest and no required payment if you keep your loan and are living in the house. While on the surface, this appears almost too good to be true, there are many factors to consider when deciding if a zero down loan is your best option.

The obvious benefit of this product is that buyers can get into their own home faster. If delaying a purchase in order to save a down payment is holding you back, this option should be considered.

Every monthly payment that's applied to your own home instead of a landlord's allows you to build equity, providing potential tax savings. While slower than it has been in past years, most experts predict values are likely to appreciate by three to five percent per year.

The biggest challenge to qualifying for many of the down payment programs is the 80% area median income (AMI) limit. For most of the Denver Metro area, that means buyers must make less than $104,320 annually. Based upon that income, if a borrower has any other monthly debt, it can be hard to qualify for much with our current home values. Other DPA options include a monthly payment on the second loan, which of course would impact a borrowers' ability to qualify and in some instances, the amount that can be borrow depends upon the census tract of the new home

While the down payment loan will not be accruing interest and doesn't come with an added monthly payment, it can make refinancing difficult if rates come down. You must pay back the entire balance on the DPA loan when you refinance, and if you don't have the cash or equity to pay off the second loan, you will be stuck in your current mortgage for the time being.

Lenders offset the added risk of lending with no money down by increasing the interest rate on the first mortgage. This increases your total monthly payment, and the amount of interest paid over the life of the loan. Let's look at an example.

A qualified home buyer with a 740 credit score wants to buy a $400,000 home. With the standard 3% down conventional loan option, the down payment amount is $12,000, and the interest rate is approximately seven percent. The Principal and Interest payment comes to $2,581.

With the Zero Down program, the $12,000 down payment will be covered by the 0%, no-payment second loan. But the interest rate is approximately 7.875%. That brings the P&I payment to $2,813, which is $232 more each month. A 5-year loan cost analysis shows that in the first 5 years, the buyer will have paid $17,147 more in interest on the primary loan with the Zero Down option.

While not required, borrowers have the flexibility to make payments on the down payment assistance loan.

Buyers should ask themself if the upfront savings of $12,000 is worth the additional $232 a month. Are they planning to stay in the loan long term and if not, do they have a plan to pay off the balloon payment for the balance of the down payment loan? When considering any Down Payment Assistance option, it's critical to work with an experienced loan officer to make sure you understand its risks and benefits. You can reach Jaxzann Riggs at **303-990-2992** with questions about down payment assistance options.