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### Low Down Payment Financing Options ARE Available

Recently, a prospective homebuyer asked “Is it true that I need a 20% down payment to purchase a home?” Before I explained their options, I asked from where they heard that information. They said they were at a Holiday party and one of their relatives was explaining that with the new mortgage regulations, the government was requiring a 20% down payment for people to purchase homes.

This poor couple felt they could afford the additional \$500.00 per month over their current rent for a mortgage payment, but felt it would take them another 5 years of savings to achieve the \$30K down payment for their \$150K dream home.

I can understand their frustration and the source of confusion from their information source. During the formulation of the new mortgage regulations, there were lots of ideas being floated, regulatory proposals being made, and general confusion circling the industry. This culminated in misinformation being spread through the home buying population. Fortunately for many qualified people, like those I describe above, it is a myth that you need a 20% down payment to finance a home.

Government lending programs, such as FHA, VA, and USDA's Rural Development and even low down payment conventional lending programs offer qualified prospective home buyers a low or no down payment method for financing their home purchase.

#### VA & Rural Development (USDA-RD) – No down payment required

Both the Veterans Administration (VA) and the United States Department of Agriculture (USDA) offer prospective homeowners options to purchase a home with NO down payment.

The VA's program offers qualified military service veterans with VA entitlement an opportunity to purchase a home with no down payment. This is often the best choice of no down payment financing for an eligible veteran.

If you are not a veteran, but can find a suitable home in a community classified as “rural” by the USDA, the USDA offers their Rural Development (USDA-RD) financing program. Many communities across New Hampshire have been classified as “rural. Under the USDA-RD program, qualified buyers can obtain financing on homes in qualified rural areas with no down payment. While there limitations on the buyers' household income, this remains a viable option for many prospective homebuyers in many NH communities.

#### FHA – 3.5% down payment (all of which can be a gift)

Non-Veterans or prospective homeowners that cannot find a suitable house in an eligible USDA-RD eligible community can take advantage of the Federal Housing Administration (FHA) financing program. This program allows qualified buyers to purchase a home with as little as 3.5% down. In addition, the FHA financing program allows the entire down payment to be a gift from a closely related relative. That means, under the FHA financing program, qualified buyers with a gift from a closely related relative can get into a home with little or no money from their accrued savings, leaving their accrued savings for a safety reserve to cover unexpected emergency expenses after they purchase the home.

#### Too Good to be True?

We've been conditioned to think if something sounds too good to be true, it probably is. While the Government lending programs (VA, FHA, and USDA) offer attractive low down payment options, they come at a cost. There are up-front fees for VA, FHA, and USDA-RD programs and monthly recurring fees or insurance for FHA & USDA-RD. VA, FHA, and USDA-RD allow the up-front fees to be added to the mortgage amount, so these fees do not come at closing, but they are still a financing cost over the life of the loan.

#### Conventional – 5% down payment

Well qualified homebuyers that have saved at least 5% of their home's purchase price from their own funds may avoid the higher costs of the Government lending programs with conventional financing

options. Many of these programs are underwritten to Fannie Mae and/or Freddie Mac guidelines and a lower cost alternative when compared to the Government programs over the life of the loan.

Speak with a professional

Before accepting information from a relative at your next Holiday or Super Bowl party, I'd suggest confirming the information with a qualified MBBA affiliated loan officer. There is a lot of misinformation floating around in the community and you may find your dreams of home ownership are closer than others would have you believe.

This information has been provided by the Mortgage Bankers and Brokers Association of New Hampshire (MBBA-NH) in conjunction with the New Hampshire Union Leader. Any questions about the content should be directed to the MBBA-NH at 6 Garvins Falls Road, Suite 106, Concord, NH 03301, e-mail at [info@mbba-nh.org](mailto:info@mbba-nh.org), website [mbba-nh.org](http://mbba-nh.org). Article written by: Rick Herrick, Senior Loan Officer, *Norwich Commercial Group D/B/A Norcom Mortgage (NMLS #48452) (NMLS #71655)*.