



## Your Savings and Down Payment

### Your First Step Toward Buying a Home

When preparing to buy a home, the first thing many homebuyers do is look at the real estate ads in newspapers, magazines and listings on the Internet. Some potential buyers read how-to articles like this one. The next thing you should do - before you call on an ad, before you talk to a REALTOR®, before you shop for interest rates - is look at your savings.

Why?

Because determining how much money you have available for down payment and closing costs affects almost every aspect of buying a home - including how you write your purchase offer, the loan programs you qualify for, and shopping for interest rates.

### Mortgage Programs

If you only have enough available for a minimum down payment, your choices of loan program will be limited to only a few types of mortgages. If someone is giving you a gift for all or part of the down payment, your options are also limited. If you have enough for the down payment, but need the lender or seller to cover all or part of your closing costs, this further limits your options. If you borrow all or a portion of the down payment from your 401K or retirement plan, different loan programs have different rules on how you qualify.

Of course, if you have enough for a large down payment, then you have lots of choices.

Your loan choices include such varied programs as conventional fixed rate loans, adjustable rate mortgages, buydowns, VA, FHA, graduated payment mortgages and all the varieties of each.

### Shopping for Rates

A very important reason you need to have at least some idea of your down payment is for shopping for interest rates. Some loan programs charge a slightly higher interest rate for minimal down payments. Plus, the interest rates for different loan programs are not the

same. For example, conventional, VA, and FHA all offer fixed rate loans. However, the rates vary from one program to another.

If you shop lenders by phone, the loan officer will be able to tell you which programs fit and quote your rates accordingly. However, if you are shopping on the Internet, you have to develop some idea of your loan program on your own.

## **Writing Your Offer**

Another reason you need to have a clue about your down payment is because it affects how you write your offer to purchase a home. Not only are you required to put your down payment information in the offer, but also different loan programs have different rules that also affect how you write your offer. This is especially important when dealing with FHA and VA loans.

If you are asking the seller to pay all or part of your closing costs, you have to be certain your loan program allows what you are asking. For smaller down payments, lenders allow the seller to pay less closing costs than for larger down payments. Some loan programs will allow a seller to pay certain types of costs, but not others.

Finally, your down payment also affects your ability to qualify for a loan. When you make a small down payment, lenders are fairly strict about having you conform to their underwriting guidelines. For larger down payments, they will tend to make allowances or exceptions to the rules.

## **Conclusion**

As you can see, the down payment affects every choice you make when you buy a home. Although you should look at ads, familiarize yourself with neighborhoods, learn about prices, and read as much as you can - when you get ready to take action - the first thing you should do is figure out how much money you have available for the purchase.