4 DOWN PAYMENT OPTIONS FOR FIRST-TIME HOME BUYERS

A 20% down pyament is the standard for most mortgages, but that is not always realistic. Local market conditions and other economic factors can make it difficult to come close to 20%. That's why lenders, states, and organizations created down payment assistance options for first-time home buyers. Here are 4 ways to get help with your down payment.

1) Low Down Payment Mortgage Programs

While 20% is preferred by lenders, many offer mortgages with lower minimum down payments. For instance, FHA loans only require 3.5%, and some conventional loans go as low as 3% for qualifying borrowers. VA loans and USDA loans offer 0% options provided you qualify.

The problem is the additional costs associated with lower down payments. Typically, lower down payments come with higher interest rates. FHA and conventional loans will require private mortgage insurance (PMI) if you put down less than 20%. VA loans have funding fees that can be rolled into your monthly payments, increasing the amount you pay.

2) State And Local Programs

State level agencies, non-profits, foundations and some employers offer down payment assitance for first-time home buyers. This usually comes in the form of grants or zero-interest loans. You can find assistance programs ranging provided by national level organizations all the way to groups focusing on specific neighborhoods. Many require you to take a First-Time Homeowner course to educate yourself on the costs and responsibilities of owning a home. The drawback is these assistance programs restrict who can apply based on maximum sale price and income level.

3) Gifts And Loans From Family

Gifts from family or friends are common ways to fund a down payment, especially for people under the age of 30. Lenders will accept gifts, but it is not as simple as declaring you have the funds. Your lender will require extensive record keeping and documentation to prove the person giving the gift is financially capable of doing so. Also, relying exclusively on gifts to fund the down payment may lead a lender to view your application as inherently riskier.

4) Retirement Account Withdrawals Or Loans

While tapping into your retirement savings is an option, this requires careful consideration. This is not an option to take lightly. Taking money out of your retirement savings can easily put you behind on your retirement goal and you lose growth on any money you withdraw.

The penalties for early withdrawal or taking out loans vary based on the account type. Some employer 401(k)'s allow early withdrawals, but may require you pay income tax, additional penalties, and repay the loan by a certain deadline. Traditional IRA's allow up to $10,000 on first-time home purchases with income taxes. Roth IRA's allow tax-free withdrawals for first-time purchases provided you've had the account for 5 years.

Again, make sure you understand the potential consequences of pulling money from your retirement accounts.

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