YOUR GUIDE TO A MORTGAGE *Down Payment*

ChurchillMortgage.com

TABLE of CONTENTS

Mortgage Down Payment Guide

Deciding to purchase a home is one of life's biggest moments. Not only is it a milestone, but if done smartly, it will put you on the path to financial freedom. One of the keys to successfully buying a home is your down payment.

The down payment on your home will not only help you pay less interest overall but can help you build long-term wealth. Read along as we tell you everything you need to know about down payments and how to navigate them during the home buying process.

What Is a Down Payment and Why Do You Need One?

A down payment is the amount of money you pay up front when making a big purchase, in this case, a home. Most people will then finance the rest of the home purchase through a loan. For homes, the loan is usually referred to as a mortgage.

A down payment is helpful for a couple of reasons:

- ✓ It allows you to lessen the amount you must borrow to buy the home, letting you to pay off your mortgage faster and with smaller payments, often at better interest rates.
- ✓ The discipline required to save up for a down payment is helpful once you own the home, keeping you steadfast in budgeting.

The Ideal Down Payment and What to Do If You Don’t Have It

A down payment of at least 20% is ideal, but not a deal breaker if you have less than that. Here’s why and what to do if 20% isn’t a possibility for you:

- ✓ **Private Mortgage Insurance (PMI):** Private Mortgage Insurance is required for a down payment less than 20% if you are using a conventional loan. You’ll pay this each month until your loan-to-value ratio on your mortgage balance reaches 78% on your primary residence.

  You may request removal of PMI at 80% of your mortgage balance, but you’ll need to have your home appraised. Keep in mind, if you miss any mortgage payments, it may be harder to remove PMI at 80%. The good news is if you do have to pay PMI, you won’t pay it for the entire length of your loan.

Loan-to-Value% = The amount you owe on your mortgage ÷ the appraised value of your home x 100

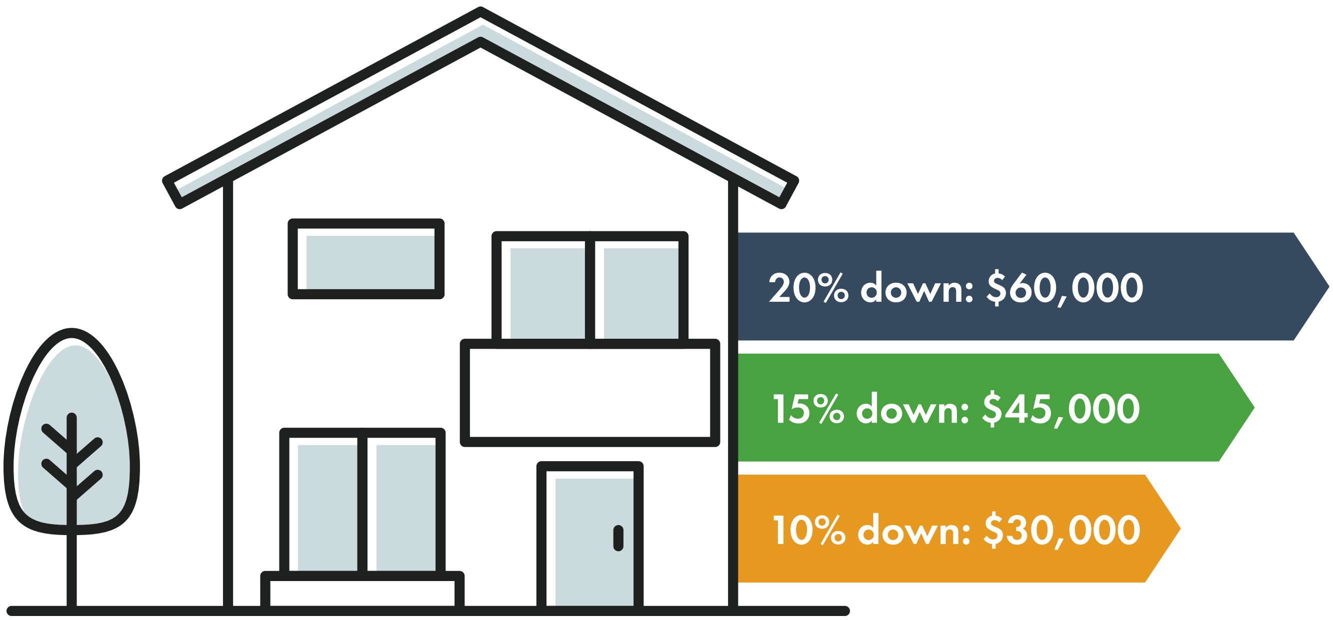
- ✓ **Lower Interest Rate:** When you make a higher down payment, that helps to lower the interest rate available to you when purchasing a home. By putting 20% down, you have the potential to save thousands of dollars over the length of your loan.

- ✓ **Increase Your Offer Getting Accepted:** The more money you pay up front, the more secure you look financially to home sellers. This means your financing is likely to be approved quickly, which is attractive to people trying to sell their home.

In case 20% isn't possible:

While 20% down is ideal and might provide you with more options when buying a home, we understand it isn't always an option. In this case, speak with your Home Loan Specialist to help you come up with a plan for what IS possible. Your range may be more like 10-15% (or less) and that's ok!

IF YOU BUY A $300,000 HOME:



Loan Program Requirements

With so many types of home loans available, it can be overwhelming to figure out which program is right for you. Here at Churchill, it's important we do our very best to make sure you feel educated and secure in where your money is going and that you understand exactly how your home loan works.

Let's look at different loan programs that may be offered to you and what they require:

Conventional

- ✓ This is the most common loan option and meets the needs of most people.
- ✓ Loan requirements vary from lender to lender, but typically require a higher credit score to be qualified.
- ✓ There are a variety of loan terms ranging from 10 to 30 years.
- ✓ Can be used on a variety of property types.

FHA

- ✓ FHA stands for Federal Housing Administration, a government agency that keeps interest rates regulated and insures mortgages for home buyers who work with lenders.
- ✓ A good option if you've don't have a larger down payment or a high credit score.
- ✓ Home buyers can use a down payment of at least 10% to stop their mortgage insurance premium (MIP) after 11 years

VA

- ✓ VA loans were established by the U.S. Department of Veterans Affairs for those serving our country through the military, their spouses, and for veterans of the military.
- ✓ A down payment is not always required.
- ✓ Mortgage insurance is not required.
- ✓ VA loans can be used multiple times, they are not limited to first-time home buyers.

USDA

- ✓ A USDA is a special type of a zero down payment mortgage that eligible home buyers in rural and suburban areas can get through the USDA loan program, which is backed by the U.S. Department of Agriculture.
- ✓ The main type of USDA home loan is the USDA Guarantee Loan.
- ✓ Mortgage insurance is required if you choose to put little or no money down.

Save for a Down Payment

Saving for a down payment does require discipline but it doesn't have to be overwhelming. Here are some tips on ways to save for your down payment without feeling stressed out!

GO OVER YOUR FINANCES

Before you begin to look for a home or talk to a Home Loan Specialist, sit down (if you have a partner, make sure you do this together) and really look at your finances. Decide how much you want to spend on a house, and what you're willing to borrow. Figure out your **debt-to-income ratio** and see what you are spending each month. Look at what you already have in savings and see how you can add to that.

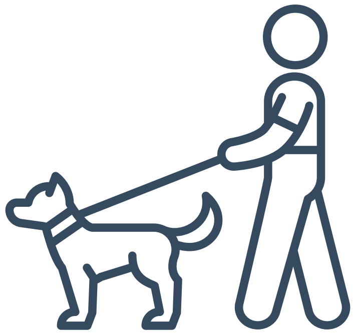
Debt-to-income ratio (DTI) is the amount of money you have coming in each month vs. what is being spent. Here's how to figure that out:

1. Add up your monthly debt payments.
2. Add up your gross income for the month.
3. Divide our monthly debt by your gross income for a percentage.

Remember, the lower your DTI percentage, the better!

LOOK INTO A SIDE HUSTLE

If your schedule allows it, a second job could be a great help while trying to save for your down payment. Perhaps you work in an industry where you can pick up extra freelance gigs on your downtime. The quicker you can save up for your down payment, the sooner you will start saving money by owning a home, and the faster you'll begin building wealth!



PUT OTHER SAVINGS INTO THE DOWN PAYMENT

This is only to get you to 20% of the value of a home. Perhaps you can take a small break from adding to your retirement fund or vacation fund and put it toward your down payment for the time being. Every little bit helps!

CREATE A BUDGET

To save for a down payment, you will need to adjust your spending habits. A budget is a great place to start. Write out all your bills and how much they cost each month. After that, write out your necessities such as groceries, gas, etc. Then, write down how much you spend on things such as entertainment and eating out. By cutting down on extra expenses you'll be able to move money into savings for a down payment.

Ways to Cut Back—Sample Budget

Monthly Take Home Pay: $5,000

Rent: $1,400

Rental Insurance: $30

Electricity: $100

Water: $30

Gas (house): $75

Phone: $100

Internet: $60

Groceries: ~~$250~~ **$200**

Personal Care: ~~$150~~ **$75**

Car: $350

Car Insurance: $150

Gas (car): ~~$250~~ **$200**

Student Loans: $500

Credit Cards: $300

Streaming Services: ~~$75~~ **$25**

Cable: ~~$100~~ **$0**

Dining Out: ~~$200~~ **$50**

Entertainment: ~~$150~~ **$50**

Health Insurance: $350

By cutting back in certain aspects, you could save **$955** a month, resulting in a savings of **$11,460** a year. Budgeting will look different for everyone. For example, if you're an avid athlete, keeping a gym membership may be a priority. So, you may choose to cut cable. Someone else who's job has demanding hours and never cooks may choose to cut the expense of a gym membership and streaming services.

No matter your current situation, it's worth looking into what areas you can reduce spending while saving for a down payment!

Down Payment Assistance

Let's talk about the good and bad regarding down payment assistance programs so you can make an informed and educated decision about what's best for you.

Down payment assistance comes in many forms and usually vary state-by-state. Some down payment assistance programs have certain requirements such as being a first-time home buyer, falling into a specific income bracket, or having a certain credit score to qualify.

FIRST-TIME HOME BUYER

Down payment assistance for a first-time home buyer can come in the form of a grant, which requires no money to be paid back (or in some instances a tax credit). This involves doing research and seeing what is available in the state you're looking to purchase your home.

INCOME BRACKET

Because these down payment assistance programs are to help those who will have a harder time securing financing or saving up for a home, most have an income limit that you must stay within. This will vary based on the program and where you live as well.

CREDIT SCORE

Since you will not be putting money down on the home, many programs have specific credit score requirements.

Options for down payment assistance programs can be found on your state government pages, as well as on the federal page for U.S. Department of Housing and Urban Development. There are even options from the city and county level.

These programs can look very appealing, especially in the form of a grant or forgivable loan, because they essentially seem like free money. However, many can come with limitations such as higher interest rates on monthly payments, or liens against the home. Therefore, it's important to make sure you go over everything with your Home Loan Specialist before committing to anything.

These programs can be beneficial, but only if you know exactly what you're signing up for, and how much it may cost you financially in the long run.

The Bottom Line

Homeownership is one of the best investments you can make on the path to long-term wealth. Your down payment is one of the ways you can set yourself up for success on that path.

It helps to have someone on your side who can answer all of your questions and help you feel educated on the home buying process. That's exactly what the Home Loan Specialists at Churchill do; make sure you feel secure in your decision and ready to buy a home. If you're thinking about buying, give us a call. We're here to help in any way we can!

Glossary

Debt-to-Income Ratio (DTI): The percentage of your gross monthly income that goes toward your monthly debt payments. When applying for a mortgage, a lower DTI is best.

Loan-to-Value Ratio (LTV): Compares the amount of the loan you are requesting to the appraised value of the home you are wanting to purchase. The ratio is used for both purchasing and refinancing home loans.

Mortgage Insurance Premium (MIP): If you have an FHA home loan, you'll need MIP. You'll likely pay two payments (a one-time upfront premium when your loan closes and an additional annual payment that is sometimes broken out as part of your monthly mortgage payment). MIP costs are based on the amount of money borrowed, the size of your down payment, and the length of your loan term (i.e 15-year, 30-year, etc.). You will pay MIP for the life of the loan if you put less than 10% down. If you put more than 10% down, you will pay MIP for 11 years.

Private Mortgage Insurance (PMI): Most lenders require PMI on a conventional loan when a home buyer makes a down payment of less than 20% of the home's purchase price. PMI does not safeguard your mortgage payment. If you cannot put 20% down when buying a home, you can still reduce the amount of PMI you pay each month by putting some money down (the more the better in this situation).

CHURCHILL MORTGAGE®

NEED MORE INFORMATION?

CHRIS PARKS
SALES MANAGER
NMLS# 1021326

Cell: 804-243-9831
CHRIS@PARKSMORTGAGEGROUP.COM
WWW.PARKSMORTGAGEGROUP.COM

EQUAL HOUSING LENDER

Source: forbes.com/home-improvement/contractor/cost-to-build-a-house/

Chris Parks NMLS ID: 1021326; Company NMLS ID: 1591 (www.nmlsconsumeraccess.org); Branch NMLS ID # 134213; FL-LO93448; VA-MLO-13322VA, Churchill Mortgage Corporation of TN; 505 Huntmar Park Drive, Suite 250, Herndon, Virginia 20170 Tel: 703-481-2291; All other states, Churchill Mortgage Corporation