

The Mythical 20% Rule



Dreaming of Becoming a Home Owner?

For the average American placing 20% down on the home of your dreams, amounts to a pretty big number. Once closing costs are thrown in, you've got a small fortune to raise – and years to go until reaching your goal. All while interest rates and home prices continue to rise, seemingly with no end in sight. If this sounds like you, there might be one hidden mistake in your calculations. You don't need a 20% down-payment!

Yes, you read that right. The 20% myth is an unfortunate holdover from the era after the housing crisis when the number of available home loans decreased significantly. Thankfully, improved economic conditions and newer mortgage options have all but eliminated the requirement of a 20% down payment.

While it's true that a higher down payment means you'll have a smaller monthly mortgage payment, there are lots of reasons to choose a different path to homeownership. Our team has compiled a list of some lower down payment mortgage options, along with strategies to assist you in qualifying for your home loan.

OUR LOANS WERE DESIGNED WITH YOU IN MIND

For our members, we have great mortgage solutions designed with first-time homebuyers in mind. Both are conventional mortgage loans with a 30-year term and low down payment requirements.

3% down payment: This option is available to first-time homebuyers and allows CTFCU members to finance up to 97% of their prospective home's purchase price, on a 5/1 ARM (adjustable rate mortgage). The rate remains constant during the first 5 years and can adjust each year after that time. Best of all, PMI (private mortgage insurance) is not required!

5% down payment: All homebuyers can apply for this mortgage loan, where up to 95% of the home's purchase price can be financed into the loan. The rate is fixed for the entire length of the loan and doesn't require PMI.

HOW WOULD GOVERNMENT-BACKED* MORTGAGE OPTIONS APPLY TO YOUR SITUATION?

FHA mortgage: This loan is aimed at helping first-time home buyers and requires as little as 3.5% down. If that number is still too high, the down payment can be sourced from a financial gift or via a Down Payment Assistance program. Most FHA loans require additional PMI (Private Mortgage Insurance) premiums, which could increase your monthly payment and the total amount paid on your mortgage.

VA mortgage: VA mortgages have very favorable terms, but they are strictly available to current and former military members. They normally do not require a down payment or PMI (Private Mortgage Insurance). Also, this loan type can allow for seller-paid closing cost concessions or funds originating from a gift.

USDA home loan: Backed by the United States Department of Agriculture, USDA home loans require zero down payment. However, eligibility for the program is limited to certain geographic locations. Qualifying homes need not be situated on farmlands, but they must be in sparsely populated areas. USDA loans are available in all 50 states and are offered by most lenders.

**Most of these loans require income eligibility and may require that you pay PMI.*

DOES A SMALLER MONTHLY PAYMENT MAKE SENSE FOR EVERYONE?

If you're thinking of waiting until you have saved 20% to put down on a home, consider this: a RealtyTrac study found that on average, it would take a homebuyer nearly 13 years to save for a 20% down payment. In that time, you could be building equity in your home, while avoiding the effects of rising interest rates and home prices.

OTHER BENEFITS TO PUTTING DOWN LESS THAN 20%:

- **Conserve cash:** You'll have more money available to invest and save.
- **Pay off debt:** Many lenders recommend using available cash to pay down credit card balances before purchasing a home. Credit card debt usually has a higher interest rate than mortgage debt – and it won't net you a potential tax deduction.
- **Improve your credit score:** Most people see an increase in their credit scores after paying down consumer debts. You could land a better mortgage rate this way, especially if your score tops 730.
- **Home improvements:** Few homes are in perfect condition as offered. You'll likely want to make some changes to your new home, so having some extra cash could help to get your renovations off to a good start.
- **Build an emergency fund:** As a homeowner, having a well-stocked emergency fund is crucial to dealing with unexpected repairs.

READY TO BUY YOUR DREAM HOME? WE'D LOVE TO HELP!

Call, click, or stop by a CTFUCU branch today to learn more about our fantastic options and rates. We'll be there for you from application through closing and beyond!

800-622-5305 | ctelco.org



Sources

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