

1 Real Estate Advisor

Down payment got you down?

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For many Americans, coming up with a down payment for their first home can be a major roadblock--and quite often the reason for renting, rather than owning a home.

A down payment is the difference between the home's purchase price and its mortgage amount. This percentage of the sale price must be paid up-front and can vary by lender, location, and loan program. A higher down payment generally translates into lower loan interest rate requirements.

Typically, a down payment comes from personal cash savings, but it can also be a gift that is not to be repaid, or a borrowed amount secured by assets.

While conventional loan down payments may be close to 20% of the sale price, government loans typically have lower down payment requirements. This allows potential homebuyers who normally cannot meet down-payment requirements an opportunity to qualify for a mortgage. Keep in mind that down payments that are less than 20% of the sale price typically require mortgage insurance payments.



10 things to know before buying a home

1. Before you start looking for a home, get pre-qualified for a loan. Banks, credit unions, and mortgage bankers make home loans; mortgage brokers process loans through a variety of lenders. The lenders will take an application, process the loan documents, and see the loan through to the funding stage.
2. If you have marginal or bad credit, consult your lender. You may be able to qualify for a loan depending on how long ago and what reason(s) caused the bad credit.
3. You will need a down payment. Down-payment requirements vary depending on the type of loan. You may also qualify for federal or local down payment assistance. Consult your real estate agent.
4. You will need funds for closing costs. Closing costs are charges for services related to the closing of your real estate transaction. They include, but are not limited to: Escrow fees, title policy issuance fees, mortgage insurance fees, fire, flood, and homeowners insurance, county recorder fees, and loan origination fees. Consult your lender for an actual estimate of these costs.

10 things to know before buying a home *(continued)*

5. Some loans have "points" and some do not. A point is a loan origination fee equivalent to 1% of the loan amount. Together with the interest rate, they constitute the yield on your loan for the lender.

6. Mortgage rates can be fixed or adjustable. Which one is right for you depends on whether mortgage rates are at a high or a low point when you purchase, and on how long you plan to live in the home.

7. There are two main types of loan categories. Conventional mortgage loans are available with fixed or adjustable interest rates. Government loans include FHA fixed and adjustable rate mortgage loans, and VA fixed rate mortgage loans.

8. If you are a low-to-moderate-income homebuyer, there are special programs designed to help you. These loans are available through private lenders, as well as local and state housing agencies.

9. You may have to pay mortgage insurance. Mortgage insurance protects the lender from potential loss if you should default on your mortgage loan payment. Mortgage insurance is always required on FHA mortgage loans.

10. Many organizations offer home loan counseling to prospective homebuyers. They will cover home selection, REALTOR® services, lenders, loan programs, homeownership responsibilities, saving for a down-payment, and other important pieces of information.

LINDSEY REALTY, Debra Lindsey, Broker
P O Box 777
Shreveport, LA 71162



LINDSEY REALTY,
Debra Lindsey, Broker, 0995690271
LINDSEY REALTY
P O Box 777
Shreveport, LA 71162

FAX 800.406.2665
318.990.2737
lindseyrealty@gmail.com
www.lindseyrealty.us



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