

How homebuyers clear hurdle of down payment

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LOS ANGELES - Saving up for a down payment is the biggest hurdle for many would-be homebuyers, particularly those looking to make the leap from renting to owning.

More than two-thirds of renters consider setting aside money for a down payment the No. 1 obstacle to buying a home, according to a recent survey by real estate data provider Zillow. That edged out other concerns, including job security and a thin supply of homes on the market.

Many first-time buyers are managing to save enough on their own. Seventy-six percent used their savings to fund their down payment last year, according to the National Association of Realtors.

Here are some tips to consider when working toward that down payment on a home.

Start soon

Begin saving now. Renters may want to calculate what their extra monthly costs would be as a homeowner and then set aside that amount, minus rent and utilities. This accomplishes two goals: Saving money for a down payment and getting you accustomed to the financial constraints of living with the costs of homeownership.

Another strategy that may help: open a separate savings account just for your down payment. That will help lessen the temptation of using the funds for something else.

You'll also have to set aside money for closing costs, which can run into the hundreds or thousands of dollars.

Weigh loan options

The type of home loan you get may determine how much of a down payment you need. For many years, buyers sought to put down 20 percent of the purchase price. That would lower their monthly mortgage payment and allow them to avoid having to pay for private mortgage insurance, or PMI. But as home prices have risen, that trend has waned. Loans that require as little as 3 percent up front have become more common. As a result, the median U.S. down payment has declined to 10 percent the past four years, according to the NAR.

"The housing market is not a matter of 20 percent down payment or bust," said Greg McBride, chief financial analyst at Bankrate.com. "You can get into a house with a low down payment, but you're going to have to come up with the money for closing costs."

Lenders offer loans backed by gov-



JOHN BAZEMORE/AP

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ernment mortgage companies Fannie Mae and Freddie Mac that require only a 3 percent down payment. Borrowers can ask to have their PMI waived once the equity in their home reaches 20 percent.

Borrowers with less-than-sterling credit may have a better shot qualifying for loans backed by the Federal Housing Administration. The FHA's program requires 3.5 percent down, but borrowers have to refinance once their equity grows above 20 percent in order to get out of paying PMI. Until then, PMI is tax-deductible.

Buyers may not need to save for a down payment at all if they are U.S. military veterans, service members or residents of certain rural areas. The Department of Veterans Affairs and the U.S. Department of Agriculture have zero-down-payment loan programs for qualified borrowers.

Other options

Saving for a down payment sometimes takes more than cutting back on dining out or travel. A quarter of first-time homebuyers in 2016 used gift money from relatives or friends to round out their down payment, according to the NAR. And more than 10 percent tapped their retirement savings without the usual hefty penalties for an early withdrawal. Of course, before withdrawing money from your 401(k) or IRA accounts consider that a big withdrawal will mean your retirement savings won't grow as swiftly.

Borrowers with low or moderate in-

come, and teachers, firefighters or other public service job holders may also qualify for down payment assistance through thousands of federal, state or local programs aimed at helping homebuyers.

Using home equity

A newer approach to coming up with a down payment involves letting investors put up some of the money in exchange for a slice of the potential value in the home.

San Francisco-based Unison has a program available in 12 states and the District of Columbia that offers to match up to half of a 20 percent down payment on a home. The match isn't a loan, in that the buyer doesn't have to make payments, but still benefits from the lower cost of making a 20 percent down payment.

There are several payback scenarios, but essentially the company collects a 35 percent share of the gain, if any, in the sale of the home. Should the home decline in value, the company also shares in the loss, potentially receiving less money back on its original investment.

If the homeowner hasn't sold the home after 30 years, a property appraisal is used to determine how much Unison gets paid. The homeowner also has the option to buy out Unison any time after the third year in the home. Unison also doesn't share in the equity that the homebuyer builds as they pay down their mortgage or from investments, like a kitchen remodel.