



Financing Options – Open the Doors of Your First Home

With interest rates remaining near their lowest level in the past two decades, mortgage loans are very affordable. But if you are a first-time buyer, how can you get your foot into the door? Even if you are young, have little cash for a down payment and lack a strong credit history, you still may be able to finance your piece of the American Dream.

First-time homebuyers now have the option of making small down payments without paying for this benefit through mortgage insurance. Fannie Mae, a mortgage lender, offers mortgages with down payments sometimes as low as three percent. And some FLIA loans require no or low down payments. In the past, homebuyers making a small down payment paid high mortgage insurance rates to protect lenders against losses from defaults. But now, Fannie Mae offers options that make mortgage insurance affordable to homebuyers who cannot afford large down payments.

Some prospective first-time homebuyers inherit money and use it for home down payments. The Census Bureau reports that five percent of all homebuyers use inherited money to make a significant portion of their down payment.

Still other first-time homebuyers receive or borrow money from their parents. Lenders have rules about accepting 'gift' or borrowed money as part of a down payment. In cases where the down payment money is a gift, some lenders require a signed letter stating the dollar amount of the gift, the date the gift was given, and the fact that no repayment is required.

Many first-time homebuyers qualify for lowered interest rates and down payment assistance through lending programs sponsored by their state housing finance agencies. In most states, anyone who has not owned a home in the last three years qualifies as a first-time homebuyer. They also require that applicants to these housing finance assistance programs are at least 18 years of age and have acceptable credit records. First-time homebuyers can benefit from interest rates as much as two whole percentage points below the current market rate. Some states limit their assistance programs to prospective homebuyers who make less than a specified annual salary and/or are buying a home in a certain price range. And, some programs offer lowered interest rates to those buying homes in targeted areas.

Some state housing finance agencies also offer down payment and closing cost assistance, usually in the case of a second mortgage with low interest rates and fixed pay periods. In most cases, first-time homebuyers who can participate in these programs earn at or below the state's median income.

Other first-time homebuyers borrow money from their 401 K and other retirement plans to make down payments on their first homes. They consider an investment in a home as important as an investment in a retirement fund and realize that the equity they build through homeownership will also help them live well in their retirement years. Parents, grandparents and even siblings can also take money from their IRAs without penalty to help young relatives make down payments. There are a couple considerations with this method. No single relative can draw more than \$10,000 from their account and the person taking money from his account will have to pay substantial penalty fees if the funds are not used to purchase a home within 120 days after the withdrawal.

When considering whether they can afford to buy a house, prospective first-time homebuyers should remember that homeowners deduct their annual mortgage interest, loan origination fees, points paid at the time of purchase and real estate taxes from their gross annual income. These deductions especially help

young people buying their first homes because, for the first few years after taking out a mortgage, virtually the entire payment is interest. For many people, the mortgage interest deduction makes homeownership possible.

It is wise to seek financial and legal counsel before entering into any of the financing methods described above.