



# Easing your way into homeownership: A guide to low down-payment mortgage programs



There's no question about it: Buying a first home is a big financial commitment. In most cases, a home is the largest single purchase an individual or family will make in a lifetime. However, because of the tax advantages afforded to homeowners, buying a home also can be one of the best financial decisions you'll ever make.

Problem is, many would-be homeowners remain renters simply because they believe mortgage lenders require that all buyers come up with over 20 percent of the purchase price as a down payment. While it's true lenders feel it's less risky to work with buyers who are able to bring a substantial down payment to the table, the standard 20 percent requirement is not always a mandatory requirement to obtain a loan. We all know that in recent years, lenders have become very flexible (and some almost too flexible!) in working with first-time homebuyers by creating a variety of special programs that require only a small down payment. When managed professionally and assumed responsibly, these programs, combined with the most favorable interest rates in two decades, have encouraged growing numbers of renters to consider the tremendous benefits of home ownership.

While the list of programs offered by individual lenders is too extensive to mention in detail, here are some common programs you are likely to come across as you work with your real estate agent to purchase your first home:

**Federal Housing Administration (FHA):** FHS mortgages allow homebuyers to purchase a home with lower down payment, and to finance all non-recurring closing costs. The conditions for these mortgages, known as 203(b) mortgages (one- to four-family owner-occupied properties) vary according to whether or not you're in a "high cost" area.

A complete list of FHA high cost areas is available via a state-by-state lookup table at the very useful FHA website. This list is continually updated, so if your area is not listed and you think it should be, be sure to check back (or ask your mortgage lender) before applying.



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**Department of Veterans Affairs (VA):** VA mortgages allow veteran or active service personnel purchase home with no down payment on conforming loans, and no mortgage insurance premiums.. The loan limit can change yearly. However, there may be different purchase price limitation for qualified buyers able to make a down payment. Like the FHA program, VA borrowers may be able put up a larger percent of gross income toward their mortgage debt.

**Mortgage Revenue Bonds (MRB) and Mortgage Credit Certificates MCC):** These are two related policy tools provided by the Internal Revenue Code to promote homeownership. MRBs are tax-exempt bonds that reduce the monthly housing payment for a qualifying homebuyer by reducing the interest rate of the program participant's mortgage. Issued by state and local housing agencies, MRB proceeds are used to purchase or originate mortgage loans at below market rates. MRBs finance mortgage loans targeted to moderate-income first-time homebuyers.

MCCs provide a homeownership incentive by reducing a participant's federal tax liability. MCCs provide qualified homebuyers a nonrefundable tax credit under generally the same income and purchase price limits that apply to MRB-financed home purchases.

There generally are income and purchase price caps that vary, depending on where you plan to buy. Presently, MRBs are used significantly more than MCCs.

**Private Mortgage Insurance (PMI):** Most major lenders offer privately insured mortgages, that is extra insurance that lenders require from most homebuyers who obtain loans that are more than 80 percent of their new home's value. PMI generally require a 10 percent down payment (although some lenders offer loans with a 5 percent down payment to buyers with exceptional credit). These loans typically have higher limits for

maximum loan amount or purchase price and, therefore, overall, they allow buyers to buy a home sooner.

**Community Homebuyer Program:** Through their networks of mortgage lenders, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) offer Community Homebuyer Program loans. This is an income based community lending program that provides financial products and services making it possible for low, moderate and middle-income based families to afford homes of their own These programs allow for a lower percent down payment than standard loans.. To further help buyers qualify, applicants may use a higher percent of their gross income.

Clearly, there are a lot of options for first-time homebuyers. While individual lenders will be more than happy to share information about their own programs, you can save yourself a good deal of time by first selecting a professional real estate agent who is experienced in working with first-time buyers in the areas where you plan to buy. As an agent who works with many first-time buyers I know from experience which lenders offer a low down payment program that will meet your unique needs.

Today, taking the first step toward owning your own home is easier than before. As your real estate agent , I'm a professional resource for finding innovative ways to help you come up with the necessary down payment and qualify for financing.

## Summary:

- **Common lending programs:**
  - > **Federal Housing Administration (FHA)**
  - > **Department of Veterans Affairs (VA)**
  - > **Private Mortgage Insurance (PMI)**
  - > **Community Homebuyer Program**
- **There are a lot of options for first-time homebuyers**
- **Select a professional real estate agent experienced in working with first-time buyers**

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**For more information, please feel free to contact me directly.**

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