

# 17 PERFECT MONEY-SAVING SOLUTIONS FOR FIRST TIME BUYERS

## CUT YOUR COSTS DOWN TO SIZE HOW BUYERS CAN INCREASE BUYING POWER AND REDUCE DOWN PAYMENTS

Buying a home in today's market takes confidence and experience. You can count on *our* experience to help you buy an affordable home with confidence. Here are some tips to help you clip your home buying costs.

### HOME SEARCH

Start off with a basic figure:

What is the monthly payment range you can afford? From that, we calculate an affordable loan amount so you can concentrate on homes in your optimum price range. Don't wait until you make a bid on that "perfect" home before you talk to us. We can strengthen your offer by arming you with a written mortgage loan pre-approval.

### FINANCING

Another solution is to take advantage of current financing plans designed to reduce your monthly payments, your down payment, or both:

- **Adjustable Rate Mortgage.** The initial interest rate on an ARM is lower than a conventional loan, thereby requiring lower monthly payments. The rate rises or falls at intervals, but within limits. Ask about 3-year and 5-year options offering no rate adjustment until the third or fifth year, then annual adjustments after that. Desirable ARMs have low rate caps (ideal: 2-3% adjustable cap, 5-6% life-of-loan cap) and below-market rates for the first period. Call us. We can explain all the details.
- **Fixed Rates.** If you're more comfortable with the security of a higher-priced fixed rate loan, opting for a longer term (30 years rather than 15 years) may put monthly payments within reach. Although you would pay more in interest over the life of the loan, most homeowners plan to move before 30 years are up.
- **VA Guaranteed Loan.** If you are an eligible veteran, the Department of Veterans Affairs requires no down payment (up to a specific sales price) for a VA mortgage. Ask us for the current ceiling.
- **FHA 203(B) Insured Loan.** Insured by the Federal Housing Administration, your loan, when obtained through an established lender, features a lower down payment and interest rate than most other mortgages. Down payment is 3% of appraised value on properties priced at \$50,000 or under; 3% of the first \$25,000 of properties priced over \$50,000 plus 5% of the remaining amount up to an appraised value of \$125,000, and 10% of the amount over \$125,000 up to a ceiling that varies by area (ask us for our local figures).
- **Private Mortgage Insurance.** You insure your mortgage privately, to allow you to take out a mortgage with less than a 20% down payment. Your PMI covers the lender's risk (should you fail to make mortgage payments).
- **Buydowns.** At settlement, a third party (builder, seller or investor) agrees to put additional cash "up front" with a lender, in exchange for a lower interest rate to the buyer. Approaches vary among permanent buydowns, multi-year and graduated plans. These rate subsidies can help you afford the home you want.
- **Graduated Payment Mortgage.** The initial interest rate of a GPM is lower than a conventional loan and it has scheduled increases in following years—as your income presumably is on the rise.
- **Seller Take-Backs.** Some sellers are willing to consider seller financing (in several formats) designed to reduce buyers' payments. One format is a short-term second mortgage, secured by the house and accepted by the seller to help trim the buyer's down payment requirements. Another is a long-term first mortgage but without the usual qualification standards.

- **Mortgage Assumption.** When you assume an existing loan, your “down payment” is the difference between the sales price and the loan balance. By finding an assumption with a high unpaid balance you may reduce your down payment. If the loan has a lower-than-market interest rate, you’ll also reduce your monthly payments.
- **Co-Signed Loan.** A loan co-signer can help you qualify for a larger loan on a longer term, making monthly payments smaller.
- **Shared Equity.** You buy your home with parent, relative, friend or other qualified investor who makes the down payment. You share the purchase costs, the maintenance, the monthly payments—and equity profits on sale.

## **SETTLEMENT STRATEGIES**

Still another solution to reduce your monthly payments is to find additional funds for a down payment. For example:

- **Tax-Free Gift.** Receive a tax-free gift from your parents (or others) documented by a “gift letter” stating no repayment is required (thus your debt burden is not increased). Children can receive up to \$10,000 from each parent in one year tax free; thus, a couple can get gifts up to \$40,000 from four parents without any gift tax consequences. Some lenders may require you to use some of your own money in addition to the gift.
- **Finance Closing Costs.** You may be able to pay closing costs from your mortgage loan proceeds. This will free some additional cash for a down payment.
- **Sale Of Assets.** If you own other property (real estate, jewelry, collectables, automobiles, etc.), securities (stocks, bonds) or other assets, they can be sold to make your down payment.
- **Tax Refund.** Buyers anticipating an income tax refund can use it to increase their down payment funds, especially in the spring.
- **Life Insurance.** If your life insurance has cash value, you may be able to borrow against it at a low interest rate, possibly without having to repay the loan—and without jeopardizing your mortgage loan qualifications.
- **Securities Loans.** If you own bonds, an IRA, vested pension or profit sharing, some banks will lend you cash against these as collateral. The portfolio must be negotiable, although not immediately available.

## **BOTTOM LINE**

These are only a few of the dozens of ways to find your way around the home-financing dilemma. We’ll be glad to help you explore them all.  
Don’t hesitate to call.