

# How to Come Up With a Down Payment for Your New House!

Buying a home is no longer as difficult as it once was, in part because lenders have relaxed their requirements on home buyers putting down 20 percent of the home's purchase price. That means people don't have to wait as long to buy a house and that's a good thing, considering the current market heavily favors the buyer.

They've also relaxed the requirements on where the money can come from, provided you can properly and adequately document its source. Money for your down payment may come from any of the following sources:

## Checking, Savings, or Money Market Account

If you already have the money available in your checking, savings, or money market account, lenders will deem you a less risky borrower. The money is considered liquid funds—easily and quickly accessible. It demonstrates that you are financially stable enough to handle paying back the mortgage loan. Any additional assets that you are able to document for the lender will prove further stability in the case you have a financial emergency and need to draw upon those assets to cover your mortgage payment.

## Stocks, Bonds, or Mutual Funds

Selling stocks, bonds, or mutual funds to come up with the money for a down payment is an acceptable source. But you will need to show all documentation relating to the sale of those stocks, bonds, and/or mutual funds. Also keep a deposit receipt if you deposited the funds into your checking or savings account.

## Gifts

You may receive a monetary gift from family members to make the down payment on a new house. This would include your parents, siblings, grandparents, and aunts/uncles. You will need to fill out a "gift letter" provided by your lender that states how you are related to the person giving you the down payment gift, the amount of the gift, and possibly the source where the person got the money for the gift and is signed by you and the gift-giver.

## Retirement Accounts

Having a retirement account such as a 401k is another way to prove your financial stability and that you have the ability to save money. If you borrow against your 401k for a down payment, it may be counted by the lender as an additional debt and be added into the debt-to-income ratio. This may affect how much of a loan you qualify for. If you cash out part of your 401k, you may have to pay tax penalties. Be sure you're aware of everything involved in using your retirement account for a down payment.

## Sale of Personal Property

You can use the profits from the sale of personal property (such as a car or other valuable items) toward a down payment. You need to have a paper trail to prove ownership, sale and transfer of ownership

of the item. Ask your mortgage lender what type of documentation you'll need for whatever you'll be selling. Make sure you are paid with something other than cash. A check might be wisest.

## Employer Assistance

Some employers will provide assistance to employees when looking for housing because it fosters loyalty toward the company and because employees with a house are less likely to jump around from job to job. Make sure you have copies of all the paperwork to show your lender.

## Secured Loans

Usually, you aren't allowed to borrow money for a down payment. But it is acceptable in a few cases. For example, it must be secured by an asset, such as another property or even a car (as long as you own the car free and clear). For instance, you might get an equity line of credit if you're planning on renting your old house or if you haven't yet put your current home on the market and want to start looking for a new home. That way, you could make a non-contingent offer on the new house.

Credit cards are considered unsecured loans since you can't lose your house if you don't pay your bills. Therefore, you can't use a cash advance from a credit card for a down payment.

## Important Tips to Remember:

- You can also look into getting a higher loan-to-value mortgage. Some lenders have zero-down programs that finance 100 percent of the home's purchase price; some offer programs to even help cover closing costs. You could also look into getting a "piggyback," which is a first mortgage for 80 percent of the home's purchase price and a second for the remaining 20 percent.
- Be aware that if you borrow more than 80 percent of the home's purchase price, you'll likely have to pay PMI (Private Mortgage Insurance). When you've gained 20 percent equity in the house, don't forget to call your lender to cancel it.
- You can keep your monthly mortgage payment low by getting an interest-only mortgage that allows you to pay *only the interest* if you want, but also as much principal as you like.

See your lender about these special programs and be sure to ask many questions to best determine if these programs would be right for you.

There are several ways to get money for a down payment on a house. Your mortgage lender wants to help you get into the home of your dreams. Check with your lender today and ask lots of questions about down payment programs. Your lender will answer your questions knowledgeably, and can tell you exactly what documentation you'll need to provide.

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# Are You Prepared for a Rainy Day?

Unexpected events are a natural part of life and can happen to anyone at any time—like a job change, car troubles, natural disasters, or health issues. And even though we can't control all things at all times, we can take measures to become financially prepared for unexpected times of emergency.

## HOW MUCH SHOULD I SET ASIDE?

Generally, you should have enough money to cover your living expenses for at least three months. If your job is less secure, if the economy is weakening and job layoffs are increasing, or if you are self-employed, then it's probably safer to have closer to six months' worth or more saved.

If you have other resources that you could tap into beyond your emergency fund, you can adjust how much you need to save accordingly. For example, if you have retirement savings that you could borrow from, or friends and family that could lend you the money, then perhaps only three months of emergency funds is necessary. Just remember that some accounts such as 401ks may charge penalty fees for borrowing against them or cashing them out early.

## WHERE DO I GET THE MONEY FROM?

When you are faced with an unexpected expense, the good news is that you have several options. The money you've invested in your home can help cover unplanned situations. Starting a savings account, refinancing your mortgage or getting a home equity line of credit (HELOC) are just a few ways that may help you get through some difficult times.

## START SAVING

Creating a budget will be key in stashing those extra needed dollars. The easiest way to get the ball rolling is to tuck away a little at a

time. It may not always be possible to save extra cash, but cutting back on unnecessary spending can help you along the way.

## REFINANCING

Refinancing your existing mortgage is another way to get you on your way to saving for a rainy day. You can refinance your mortgage to lower the interest rate, thus lowering your monthly payment.

The less you have to pay toward your mortgage, the more disposable income you'll have to stash away. See your local lender to help you determine how you may be able to lower your interest rate and monthly mortgage payment.

## HOME EQUITY LINE OF CREDIT (HELOC)

With a HELOC, your lender gives you a line of credit which functions much like a credit card in that you draw upon the account when you need it; you also make payments when you draw on it. You receive either a set of checks or a plastic card that gives you access to your line of credit. You are not required to take any money up front and you can draw on the credit line at any time during the draw period. See your local lender to help you determine how much of your home's equity may be accessible to you.



Life isn't predictable so it's always a good idea to be prepared. Start thinking about ways you can save money. If you're currently experiencing a financial emergency and haven't saved anything yet, then perhaps tapping into your home's equity may help you get out of a tight situation. If you start small and tuck a little away from each paycheck, then when life's unexpected events occur, you will come out on top!

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