



Buying a Home with Zero Down Payment

In the modern economic world, where the slogan seems to be “buy now, pay later,” buying a home with no down payment is no longer an exception. It happens quite commonly today. In fact, based on data from a 2004 survey from the National Association of Realtors, less than 50% of all home buyers contributed the once-traditional 20% for a down payment. Buying with zero down is becoming increasingly popular with first-time home buyers, as 42% of them used no-down payment programs in that year.

Does this information help you breathe a sigh of relief? It is comforting to know that there are home loan programs available that will allow you to get into a house even if you have little or no cash reserves. There are a few things about these “zero down” loans that you should know though to help you know if they are a good fit for your situation.

First, you should realize that because there are so many mortgage lenders and brokers out there, you will also find just as many different “zero down” loans, each with different requirements and features. Generally though, the fewer requirements the program has, the higher the interest rate you will be charged. The same applies for the amount that you plan to finance. You can get a no-down payment loan and roll the closing costs into the balance, so that you are actually financing more than 100% of the home value, but this will definitely cost you in your interest rate.

If you want to get a good interest rate on a no down payment loan, you will generally find that lenders require that you have enough money to pay the closing costs upfront. These will generally run about 3% of the home price. Mortgage lenders also like to see that you have a few months worth of mortgage payments in the bank to show you are prepared in case of hard times. Another important thing is that you have a stable job, on that you have been with for several years. And perhaps the most critical factor in getting a good interest rate on a 100% financed loan is having a good (or excellent!) credit score.

If you don't have great credit, you can still get a zero-down mortgage loan. There are lenders that specialize in dealing with borrowers with bad credit; they are known as sub-prime lenders. Because they are willing to take on the higher risk of your loan (a poor credit history means you are more likely to default), they will charge you a higher interest rate. So be prepared for that trade-off if you want to get into a home now with poor credit and little cash.

Whether your credit is good or bad, you should be prepared to pay mortgage insurance on your house. This is an insurance policy that will protect your lender against default. You will have to pay this premium every year until your equity in the house reaches 22%. Although this sounds burdensome, it will probably be worth the extra money each year to get into a home now and enjoy all the homeownership benefits.

Getting a zero-down loan is a bad idea if you are planning to move and sell the house within a few years. Because you completely financed the purchase, your home might not have time to appreciate enough to make the sale profitable. If you are planning to move in a couple years, and you don't have much money for a down payment, you might want to consider down payment assistance programs or an ARM loan that would give a nice, low interest rate for the years you are in the home.



Talk with your trusted mortgage professional or financial advisor to figure out is a zero down payment loan is right for you!