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Can I Qualify for a Low Down Payment?

One of the biggest obstacles to homeownership for many Americans is the required down payment. While many lenders today will not require a full 20% of the home price as traditionally collected, a sizeable down payment is still preferable to obtain the best mortgage terms and a bigger home. Yet there are lenders that have developed low down payment programs to help those who struggle to save up the needed funds.

There are still qualifications that need to be met to acquire a low down payment mortgage loan. Lenders will want to be sure through income verification that you have enough consistent income to make your monthly mortgage payments. You should be prepared to supply the necessary documents to show your ability to afford a mortgage. These might include pay stubs and bank statements.

Also, if you are going to be allowed to make a small down payment, lenders will want proof that you definitely have the necessary cash to pay for it. In some cases you may qualify for a down payment assistance program, in which a third party, non-profit organization may gift you the needed money for your down payment. Check with a trusted financial advisor to find out more about these programs.

You will also need to show your lender that you have sufficient funds to pay for the closing costs, fees, and points associated with the mortgage loan. These, on average, total between 2%-3% of the loan value. You may also have to pay points on your loan. One point is equal to 1% of the loan value and is paid to your lender at closing to buy down your interest rate. There may be other fees included, and your total amount due will vary greatly depending on your lender. Be sure to shop around and find a lender that will not charge exorbitant closing costs and fees.

Another general requirement for a low down payment loan is good credit. The down payment on a home is used to decrease the lender's risk in loaning you money. The more money you put down initially, the more likely you will be to continue to keep up with your mortgage, and the smaller your lender's risk that you will default or go into foreclosure. With a low down payment, the lender is assuming more risk by accepting a smaller down payment. Lenders will of course penalize you for this by charging you a higher interest rate, but they also want assurance that you are going to make good on their investment. They will expect a certain standard in your credit score and history before qualifying you for the loan.

Finally, some lenders may also require that you have some cash reserves before loaning you money with a minimal down payment. Often they like to see that you have enough saved up in the bank for two months' mortgage payments so that you could continue to meet your obligation, even if a temporary financial crisis arose.

A low down payment loan may not be right for everyone, but it could be right for you. Start adding up your savings and talking with mortgage lenders to find out if you could qualify for this home loan. It may be a great way to finally become a homeowner!