



How to buy a home without a down payment

Mortgage rates are rising and it's becoming more difficult for a prospective buyer to save up for the necessary down payment. Fortunately, there are ways around this hurdle.

Although homebuyers were once required to put down 20% of the purchase price, those times are long gone. Generally, lenders now require 3 to 5 percent down. The problem then becomes how to save up for that 3 percent.

What many don't know is that they have several options for coming up with the money.

RETIREMENT SAVINGS

Most 401 (k) or Individual Retirement Accounts will allow people to borrow or withdraw money early. Doing so can be a good strategy for the home buyer. With a 401 (K), one can borrow up to \$50,000 or 50 percent of the balance, whichever is less, and then repay a loan over five or more years, with interest. The added advantage is that this type of borrowing won't count as debt when a lender is assessing a person's qualifications for a loan. And there is also the possibility of getting better appreciation on money invested in real estate.

But, are there drawbacks from borrowing from a 401 K? There can be. For one thing, if the borrower quits or gets laid off from the job, he must repay the loan within 90 days or be subjected to penalties and taxes on the early disbursement.

GIFT MONEY

While borrowing against retirement savings is possible for people who were able to set money aside, there are many people who have little or no savings.

What many don't know is that some loan programs allow borrowers to use gift money to make down payments. This gift money must generally come from family members, spouses, domestic partners, or even nonprofits.

NONPROFITS

There are many nonprofit organizations, such as the Home Solution program, that help first-time borrowers. Sometimes the seller will pay 3 percent of the sale of the home, plus a fee, to the nonprofit. The organization then loans the buyer that 3 percent at closing time for use as the down payment. And the Federal Housing Administration generally insures both Gift and Non Profit Loans.

There are also programs run by nonprofits to help low-to-moderate-income people purchase homes. One such program is the Habitat for Humanity, which requires buyers to contribute by working on their own home as well as the homes of others.

Additionally, housing finance agencies in many states offer special loan programs for low- to moderate-income buyers. Fannie Mae, the biggest buyer of mortgages, offers loans through housing finance agencies that require down payments of as little as 1 percent or \$500, whichever is less.

NO-DOWN and LOW-DOWN

Another option available is the no- and low-down payment loans. These types of loans, however, have the disadvantage of requiring costly mortgage insurance. Mortgage insurance benefits the lender in cases where a borrower defaults on the loan.

But, there are ways around this hurdle. A person can avoid mortgage insurance by getting a "piggyback loan." A piggyback is a home equity loan borrowed on top of a primary mortgage. For example, one could put 5 percent down, get a primary mortgage for 80 percent of the home's price, and a higher-interest home equity loan for 15 percent of the price.

In one example, a couple made a 5 percent down payment from the proceeds of a previous home, got a 20-year home equity loan for 15 percent of the purchase price, and a 30-year mortgage for 80 percent of the price. The piggyback loan allowed them to avoid buying the mortgage insurance. While the payments on the second mortgage are roughly the same as what they would have been paying toward mortgage insurance, they can

deduct the interest expense on their income taxes. And so there's the added benefit that the piggyback loan is working for them, not the lender.

THE UNORTHODOX

Some African and Caribbean cultures use the unorthodox method of forced savings known as the susu. In the susu plan, a group of people use peer pressure to compel each other to save. They pool their money and then distribute it among themselves, periodically, such as on a monthly basis.

For example, a dozen people might contribute \$500 each into the pool every month for a year. In the first month, one person gets \$6,000. The next month, the next person gets \$6,000, and so on. At the end of the year, each person has both contributed, and received, \$6,000.

There are many options out there for getting around the down payment hurdle. Ultimately, the borrower must decide what method is most suitable to his needs.