First-time home buyer loans: Low or no money down (Podcast)

Can I buy a house without a big down payment?

Absolutely, says Ivan Simental, mortgage advisor at @**theivansimental** and host of **The Mortgage Reports Podcast**.

In a recent episode, Ivan discussed zero down and low-down-payment home loan programs.

If you're lucky enough to score a home in today's wild market, here's what you need to know about your options for putting little or no money down.

Costs of buying a home: Down payment and closing costs

Ivan first explained that it's important to realize there are two main costs when you buy a new home: the down payment, which can range from 0% to 20% of the sale price, and the closing costs associated with your home loan.

Closing costs, Ivan noted, are what it will cost you to obtain the house outside of the down payment. These typically add 2-5% of the loan amount to your out-of-pocket expenses.

For example, if your loan amount is $200,000, closing costs might be anywhere from $4,000 to $10,000.

Closing costs will include things such as:

- Appraisal fees
- Credit reporting
- Loan processing
- Underwriting
- Title insurance
- Escrow
- Miscellaneous fees

It's important to save for these fees *in addition* to the down payment. Even if you qualify for a zero down mortgage loan, you'll need to cover the closing costs.

Some buyers manage to get the **seller to pay** their closing costs (though this works much better in a buyers' market than a sellers' market, which is what we're currently in). And some qualify for **closing cost assistance**. But many have to pay out of pocket.

A mortgage lender can tell you how much your closing costs will be so that you can plan for these expenses in addition to your down payment.

First-time home buyer loans with zero down

Next, Ivan discussed some of the available zero-down payment programs that will allow an individual or a family to purchase a home with 0% down.

The two main programs for buying a house with no money down are:

The VA Loan program

Designated for active-duty military members, veterans, or their spouses, this loan program provides 100% financing for a property. In other words, you don't have to pay anything out of pocket toward the purchase price.

One of the major benefits of the **VA loan program** is that interest rates are usually lower than standard market rates.

VA loan overview:

Minimum Down Payment	0%
Minimum Credit Score	580-620 (in most cases)
Mortgage Insurance	No
Income Limits	No
Additional Upfront Fees	VA funding fee — varies
Loan Limits	No

Qualifying for a VA loan:

The Department of Veterans Affairs offers the VA loan program to help military service members buy a home more affordably.

To qualify for this loan, you will need to be one of the following:

- A veteran
- An active-duty member of the military
- Honorably discharged
- A National Guard or Reserves member who has served for 6 years

Surviving spouses of a military member who died in the line of duty may also be eligible.

Credit requirements:

The exact credit requirements for the VA loan can be “tricky,” Ivan explained.

He noted that there is technically no credit score requirement, and you either qualify for the loan or you don’t.

Lenders will look at your full application — including your credit history, down payment, current debt load, and income — to make a decision on your loan approval.

“I’ve seen VA loans get qualified with a FICO score of 550 or 650 and I’ve also seen them get declined at that FICO score,” he added. “It all depends on how it’s structured and how it’s put together when it’s submitted to underwriting.”

VA loan benefits:

Overall, however, he said that a VA loan is pretty flexible, and borrowers may be able to qualify even with a low credit score.

“Keep that in mind when you’re thinking about using your VA benefits and you’re thinking your credit is not very good,” he advised. “You might be short-changing yourself and you could actually get qualified for a home loan with the current FICO you have right now."

He recommended that if you meet the qualifications as a veteran or active member of the military, you should speak to a professional to see if you may be eligible for this program.

The USDA Loan program

USDA loans are a lesser known zero down payment option for first-time home buyers.

These loans, which are backed by the U.S. Department of Agriculture, are also known as 'rural development loans.' They can offer 100% percent financing but only — as the name implies — for home buyers purchasing real estate in designated 'rural' areas.

Like the VA loan, loans through the USDA typically have lower interest rates than standard mortgage rates, because the goal of this program is to help spur homeownership and economic development in those more rural areas.

USDA loan overview:

Minimum Down Payment	0%
Minimum Credit Score	640 (in most cases)
Mortgage Insurance	Required
Income Limits	Max. 115% of area median income
Additional Upfront Fees	Upfront guarantee fee — 1% of loan amount
Loan Limits	No

USDA loan qualifications:

The main qualification with the USDA loan is that the property must be in a USDA-designated zone to qualify.

However, one important distinction Ivan made about USDA loans is that although many people think of them as rural loans, they're not necessarily just for rural areas — there are many suburban areas that qualify as well.

“There are certain zones that you might not think are USDA, but they actually are,” he noted.

Income limits:

One requirement that sets a USDA loan apart from other low- and no-money-down mortgages is that borrowers must meet local income limits.

This program is intended to help renters with low income or moderate income become homeowners.

To qualify, your household income can’t be more than 115% of the median income in the area where you’re buying.

Credit requirements:

Most lenders require a credit score of at least 640 to qualify for the USDA loan program. However, mortgage lenders can set their own rules, and some might require a higher credit score.

Likewise, some may allow a lower FICO score if your application has significant ‘compensating factors.’ These could be things like an ultra-low debt-to-income ratio or a bigger down payment.

In other words, lenders can often be flexible. So, if you’re not sure whether you’d qualify, it’s worth checking.

Ivan recommended speaking with a loan professional and checking the **USDA loan map** to see if your area is eligible for this type of loan.

Low down payment first-time home buyer loans

Not all first-time home buyers will qualify for a zero down payment loan. That’s because the VA and USDA programs have special eligibility requirements.

But that doesn't mean you're out of options. If you can't get a zero-down mortgage, look into one of the many low-down-payment loan options available in today's market.

If you can secure a loan with 3% or 3.5% down, and cover part or all of that amount using a **down payment assistance program**, you could still get into a home with very little out of pocket.

Federal Housing Administration (FHA) loans

One popular option for a first mortgage is the **FHA loan program**.

"The Federal Housing Administration doesn't necessarily lend you money," Ivan explained of this option. "But it ensures that if anything goes wrong on your loan, that the lender will be paid back."

That assurance to the lender comes at a price: borrowers must pay for mortgage insurance, no matter how much money they put down.

But there are still many benefits to this program, such as competitive mortgage rates and a low down payment.

FHA loan overview:

Minimum Down Payment	3.5%
Minimum Credit Score	580 (in most cases)
Mortgage Insurance	Required
Income Limits	No
Additional Upfront Fees	Upfront mortgage insurance premium (UFMIP) — 1.75% of loan amount
Loan Limits	Yes; $498,257 for a single-family home in most areas

Credit requirements:

The down payment on an FHA loan can be as low as 3.5% with a credit score of just 580.

In fact, you might qualify for this loan with a credit score as low as 500. However, a lower FICO score requires a higher down payment. Borrowers need at least 10% down if their score is between 500 and 580. (Plus, it'll be harder to find a lender willing to approve you.)

Upfront costs:

Other cool things about this loan? If you don't have the funds for your down payment, you can use a gift from a family member to cover the costs.

Secondly, if you don't want to pay the upfront mortgage insurance fee at closing, you can roll it into your loan, so you pay it off monthly rather than all at once.

Other FHA requirements:

The loan sizes available with an FHA loan will vary from county to county and state to state.

If you live in an expensive state, your FHA loan limit will be higher, and vice versa. The **loan limits** change every year.

Also note that the home you purchase has to be a primary residence. The same goes for VA and USDA loans. You must live in the property full-time, meaning it can't be a vacation home or an investment property.

Conventional loans

First-time home buyers with minimal savings but good credit should look into a **low-down-payment conventional mortgage**.

Conventional loans are what most people think of when they imagine a 'typical' mortgage. They're available from just about any mortgage lender, and home buyers can choose from a variety of loan terms.

For instance, you have the choice of a fixed-rate mortgage or adjustable-rate mortgage, and you could choose a loan length anywhere from 10 to 30 years from many lenders.

Conventional loan requirements:

Minimum Down Payment	3%
Minimum Credit Score	620
Mortgage Insurance	Required with less than 20% down
Income Limits	No
Additional Upfront Fees	No
Loan Limits	Yes; $766,550 for a single-family home in most areas

Private mortgage insurance (PMI):

Like the FHA program, conventional loans require mortgage insurance for those making a low down payment.

With anything less than 20% down, home buyers will pay private mortgage insurance (PMI) every month. This increases your monthly mortgage payment compared to a buyer with 20% down.

But the conventional loan program has some distinct benefits compared to FHA.

Conventional loan benefits:

When your loan balance falls below 80% of your home's value — meaning your loan-to-value ratio or 'LTV' is below 80% — you can cancel your PMI. This will significantly reduce your mortgage payments later.

FHA borrowers, by comparison, are often required to pay mortgage insurance for the full life of the loan or until they refinance.

In addition, conventional mortgage borrowers get rewarded for having a higher credit score or bigger down payment.

If you have a great credit score and 5-10% down, for example, you're likely to get a lower mortgage rate than you would via an FHA loan. And lower rates can lead to big savings on mortgage interest.

Down payment assistance programs

We mentioned above that even home buyers with no down payment have to pay for closing costs and upfront fees. But the money doesn't always have to come from your own savings.

One great resource Ivan talked about was down payment assistance programs (DPA).

These are grant or loan programs provided by state and local governments to help qualifying individuals who don't have the full down payment amount.

Down payment assistance can offer a grant or loan to cover your down payment and/or closing costs.

Because these tend to be grants or forgivable loans, the money often doesn't have to be paid back.

Ivan explained that the specific programs vary by state. You'll have to check with your local housing authority to see what exactly is available in your area, along with credit minimums and other requirements.

In general, however, most of these programs have:

- Minimum FICO requirements (often 640 or higher)
- Min. and max. income requirements
- Maximum loan amounts

"A lot of the time people get disqualified for down payment assistance programs because of the FICO," Ivan noted.

"Same thing with the income requirements — you can't make more than a certain amount to qualify for these grants, because these are grants given by the state."

Types of down payment assistance

Ivan says there are four categories of down payment assistance provided by many of these programs:

- 2% of the loan amount
- 3% of the loan amount
- 4% of the loan amount
- 5% of the loan amount

The percentage is the amount the state will give you to put towards your down payment and/or closing costs. For example, if you choose the 2% option, you will be given 2% of the purchase price of the house to put towards down payment and closing costs.

How you use the money is up to you — you can put it all towards the down payment, all towards the closing costs, or split the amount up.

The main catch with this type of program is that the more assistance you get, the higher your interest rate will be. So, if you choose the 5% program, your interest rate will be higher than someone who chose the 2% option.

How to find first-time home buyer programs

Again, first-time home buyer assistance varies a lot by state, city, and county.

Ivan mentioned a couple of good options in his home state of Nevada, which are:

- The CHENOA Fund (available nationwide)
- Home is Possible (available in NV)

To get an idea of programs local to you, start with this **guide to down payment assistance in all 50 states**.

You can also ask your loan officer or real estate agent for recommendations. These professionals will have worked with buyers using down payment assistance in the past and can likely point you toward programs for which you might qualify.

Low-cost home buying example

Down payment assistance can be a great option for people looking to lower their upfront costs.

If you qualify for a low- or zero-down loan *and* assistance with your upfront fees, you could end up paying very little out of pocket.

Ivan told the story of someone he knew who utilized the 4% DPA option and had closing costs covered by the seller. They were able to get into a house for around $1,200 out of pocket.

“It was ridiculously low, which is awesome,” Ivan said.

There are some caveats with these down assistance programs, Ivan also warned, which usually include restrictions on when you can sell and refinance. If you do decide to sell or refinance, you have to pay a prorated amount on the amount you still owe.

These programs are typically best for homeowners who plan to stay in the house for at least 5 years after buying it.

Which first-time home buyer loan is best for me?

Choosing the best mortgage loan is one of the most important decisions you’ll make as a future homeowner.

The type of loan you choose determines:

- Whether or not you qualify for a mortgage
- How much money you need to put down
- Your mortgage interest rate
- Your long-term costs
- The home price you can afford

You'll want to find the loan type that gets you the lowest interest rate because even a small rate difference can cost you or save you thousands in the long run.

That's a lot of money on the line, so don't make this decision lightly. Explore all your options and don't be afraid to ask for help if you need it.

Ivan reminds listeners to reach out with any questions they may have and contact a professional for specifics on what loans may be available for them.

Final tips for first-time home buyers

The home buying process can be complicated. But it's totally doable if you take it one step at a time.

Here are a few things to keep in mind that will help you along the way:

- **Choose the right first-time home buyer loan** — Finding the right loan type will help you qualify more easily and could save you a significant amount of money
- **Put together a great team** — Your real estate agent and your mortgage loan officer will help you through the process, from choosing a home to selecting a loan type and finding local down payment assistance programs. Take full advantage of their advice and ask lots of questions
- **Get pre-approved before you shop for a home** — One of the biggest mistakes first-time home buyers make is not getting pre-approved for a mortgage before they shop for a home. Pre-approval verifies your eligibility for a home loan, and most sellers won't accept an offer without a pre-approval letter

Remember, help is only available if you ask for it! So, take advantage of all the resources available to first-time home buyers.

If you find the right loan program, you could potentially be in your new home sooner — and for less money — than you ever thought possible.