

TYPES OF HOME LOANS FOR FIRST-TIME BUYERS

Depending on personal circumstances, first-time home buyers may have many loan options.



FIRST-TIME HOME BUYERS ARE OFTEN DETERRED FROM THE TRADITIONAL MORTGAGE PROCESS, WHERE A STRONG CREDIT HISTORY AND BEEFY SAVINGS ARE OFTEN THE STARTING POINTS FOR SECURING A COMPETITIVE MORTGAGE RATE.

However, there are many non-traditional loan sources for first-time home buyers, including grants and financial assistance that can make buying your first home far more cost effective.

As a general rule, the government considers a first-time home buyer as someone who hasn't owned a home (or interest in any home) in the last three years.

If you qualify as a first-time home buyer, assistance comes in many forms and can apply to down payments, closing costs, and even tax credits. Below, we offer an overview of the various options and programs:

Less than 20%

Most mortgages require that the home buyer put down a down payment on the cost of the house. Additionally, to avoid paying private mortgage insurance (PMI), many conventional loans require that you put down at least 20% of the home's purchase price as a down payment.

However, if you don't have the 20% down payment, there are other loan options. In fact, some lenders will issue loans to a first-time home buyer with as little as a 3% down payment.

If you need help covering the down payment, you may be able to get down payment assistance (DPA) through a grant — which doesn't require repayment — or a DPA loan, which can include a second mortgage or deferred payment loan.

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Generally, you must repay your DPA-related loan when you refinance or pay off your primary mortgage, move, or sell your house. Otherwise, the loan can also be forgiven after a specified term length.

To qualify for a DPA grant, check with your state or local government for current DPA programs for first-time home buyers.

Far less than 20%

Some federal government-backed loans can help first-time home buyers purchase a home with no down payment or even poor credit. There are several government-backed loan options to consider:

- **VA loan:** The federal government offers VA loans to service members, veterans, and surviving spouse of veterans, with generous terms that require little or no down payment or PMI.
- **Good Neighbor Next Door:** Teachers (pre-K through 12th grade) and first responders may qualify for the Good Neighbor Next Door program, which

provides 50% off certain HUD properties. The properties are often affordable homes that have foreclosed.

- **FHA loan:** An FHA loan helps first-time home buyers who have poor credit, allowing them to put down as little as 3.5% as a down payment.
- **USDA loan:** The U.S. Department of Agriculture offers home buyers in rural areas financial assistance, providing up to 100% financing. These loans are not restricted to farmers, just those who live in certain targeted rural areas.
- **Fannie Mae and Freddie Mac:** These government-backed agencies work with various lenders to offer loans that require a reduce down payment. With Fannie Mae’s HomePath program, first-time home buyers can purchase a home with as little as 3% down, with certain closing costs also covered by the program.

- **State and Local loans:** Many government home buying assistance programs are executed through state and local programs. To find an updated list of programs in your area, consult the HUD website: www.hud.gov.

Another option

Some employers offer assistance to first-time home buyers, providing either a grant or loan that is forgivable over time. Check to see.

If you’re new to the housing market and looking to own rather than rent, don’t be deterred by a less than stellar credit score or modest savings. You may be able to take advantage of any number of options that can help you purchase your dream home.

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