

# The Pros and Cons of a Low Down Payment



Let's put the misconception to bed once and for all:

**You don't need at least a 20% down payment to buy a home.**

The down payment is the biggest reason why people wait so long to become homeowners — and most think they need a ton saved up to make it happen. The fact is, there are several home loans (such as the VA loan and the FHA loan) that have low down payment options aimed at making life a little easier for you.

But is the low down payment right for you? Follow along as we weigh the pros and cons of putting down less than 20%.

## PRO

### Become a homeowner faster



The less money you need to save for a down payment, the sooner you can call a house your own. What's more, if interest rates are poised to rise soon or if home values are increasing in the area you're looking to purchase, buying a home can be a smart move. Simply put, a low down payment puts you on the fast track.

## CON

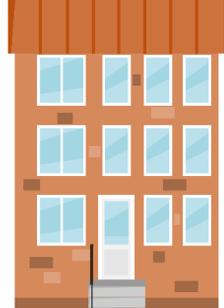
### You'll likely need to pay for private mortgage insurance

Most lenders require you to pay for private mortgage insurance (PMI) when you make a down payment of less than 20%. This is an extra expense you'll have to pay every month on top of your mortgage payment — at least until you reach the 20% threshold. PMI essentially safeguards the lender in case you default on the loan.



## PRO

### Avoid rising rents



If rent prices continue to climb in your neck of the woods, having the option of a low down payment might be just what you need — especially if you're having trouble saving for 20% down. This can end up being a double whammy, too. You'll leave behind the uncertainty of your rent costs AND you'll start building equity sooner instead of putting cash in your landlord's pocket.

## CON

### It takes longer to build home equity

The smaller your down payment is, the less equity you start with — which is the current value of your house minus what you owe on the mortgage. Having little equity in the home means it could take longer to get rid of PMI and get a cash-out refinance.



## PRO

### Keep more cash in your hands



Along with the monthly mortgage payment, several other homeownership related expenses will come up — including improvements/repairs and emergencies. Should an issue arise, or if you want to just update your home, putting less down will allow you to access the funds in your bank account instead of using them toward a larger down payment.

## CON

### Can be risky if home prices fall

If the market value of your house goes down, you can end up owing more than the house is worth. Say the price of your house falls to \$210,000 and you owe \$230,000 on the loan — you have \$20,000 worth of what's called "negative equity," also known as "being underwater." This situation can be more likely if you make a small down payment.



## So there's the lowdown on low down payments

Ultimately, the decision to put down less than 20% should be influenced by your current financial circumstances and future goals.

Check out this guide to learn more about your home loan options — including the VA loan and the FHA loan.

**Buying a Home?  
Compare Your Loan Options.**