

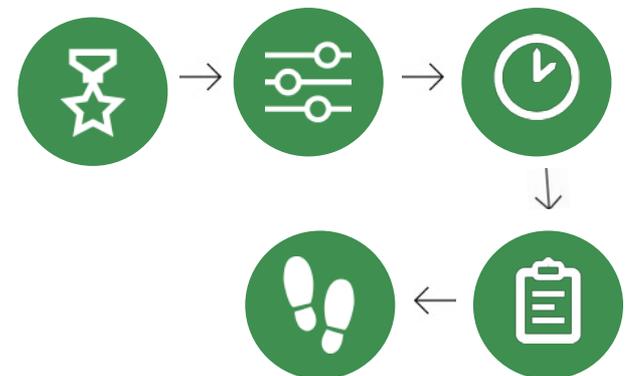


**CHOOSING THE RIGHT
DOWN PAYMENT IN
WASHINGTON STATE**

The common wisdom is that a homebuyer needs to have 20% of their chosen property's cost saved up for a down payment. But with Washington State as home to some of the hottest housing markets in the country, this means that the dream of homeownership is out of the question for many otherwise qualified buyers. Do you *really* need to save that much for a down payment? Sometimes. But there are other factors to consider.

TABLE OF CONTENTS

| | |
|---|-------|
| Do I Need Over 20 Percent Down to Buy a House in WA | 1-3 |
| Less Than 20% Down with No PMI: WA Mortgage Strategies | 4-7 |
| Zero Down Mortgage Options for WA State Home Buyers | 8-10 |
| Down Payment Assistance from Family: A WA Mortgage Strategy | 11-14 |
| Next Steps | 15 |





DO I NEED OVER 20 PERCENT DOWN TO BUY A HOUSE IN WASHINGTON?

We've been writing a lot about the different mortgage financing strategies available to borrowers these days. There are valid reasons that some home buyers in Washington State make a down payment of 20% or more. The two primary benefits are that it reduces the size of your monthly payments, and it helps you avoid paying for mortgage insurance.

What Is PMI, and What Triggers It?

Private mortgage insurance, or PMI, is a type of insurance policy that protects banks and mortgage lenders from losses that might result from borrower default, or failure to repay. In Washington State, a PMI policy is typically required whenever the loan-to-value (LTV) ratio exceeds 80%. For example, if a borrower uses a home loan for 90% of the purchase price, and pays the remaining 10% as a down payment, private mortgage insurance would probably be required.

Of course, there's an upside to PMI as well. Without this kind of insurance, borrowers across the board would have to make down payments closer to 20%. So PMI essentially allows people to buy a home sooner, and with less money down. It increases access to mortgage financing, thereby supporting homeownership.

There are several ways to avoid private mortgage insurance in Washington State. We've covered some of them in the past, including the option of taking on a higher rate. You could also avoid PMI by combining a first and second mortgage loan to buy a home in Washington (such as the 80/10/10 financing strategy). You don't necessarily have to put the full 20% down. There are several mortgage programs available today that allow for a smaller upfront investment. If you do end up with PMI, however, the good news is that it won't last forever: Your LTV will likely decrease over time as your home's value increase.

Monthly payments are another important consideration here. For some home buyers, minimizing the size of the monthly payment is a top priority. Making a larger down payment helps you achieve this goal.

Granted, not everyone can afford to put 20% down when buying a home. But for those who can, this strategy comes with the added benefit of smaller monthly payments.

You don't necessarily need a down payment of 20% or more when buying a home in Washington, but it's a strategy worth considering for those who can afford it. It could help you avoid private mortgage insurance while also reducing the size of your monthly payments, compared to a smaller down payment.



**FOR THOSE WHO CAN'T AFFORD THAT HIGH
OF A DOWN PAYMENT, WE EXPLORE SOME
DIFFERENT STRATEGIES FOR LOWER DOWN
PAYMENTS BELOW.**



LESS THAN 20% DOWN WITH NO PMI: WASHINGTON MORTGAGE STRATEGIES

It's possible to buy a home in Washington State with less than 20% down, while avoiding PMI at the same time. Home buyers and mortgage shoppers in Washington State have a lot of options when it comes to home loan features. In fact, many borrowers don't even realize how much flexibility there is within the mortgage industry these days. Here is how you could potentially put less than 20% down when buying a house in Washington, without paying PMI.

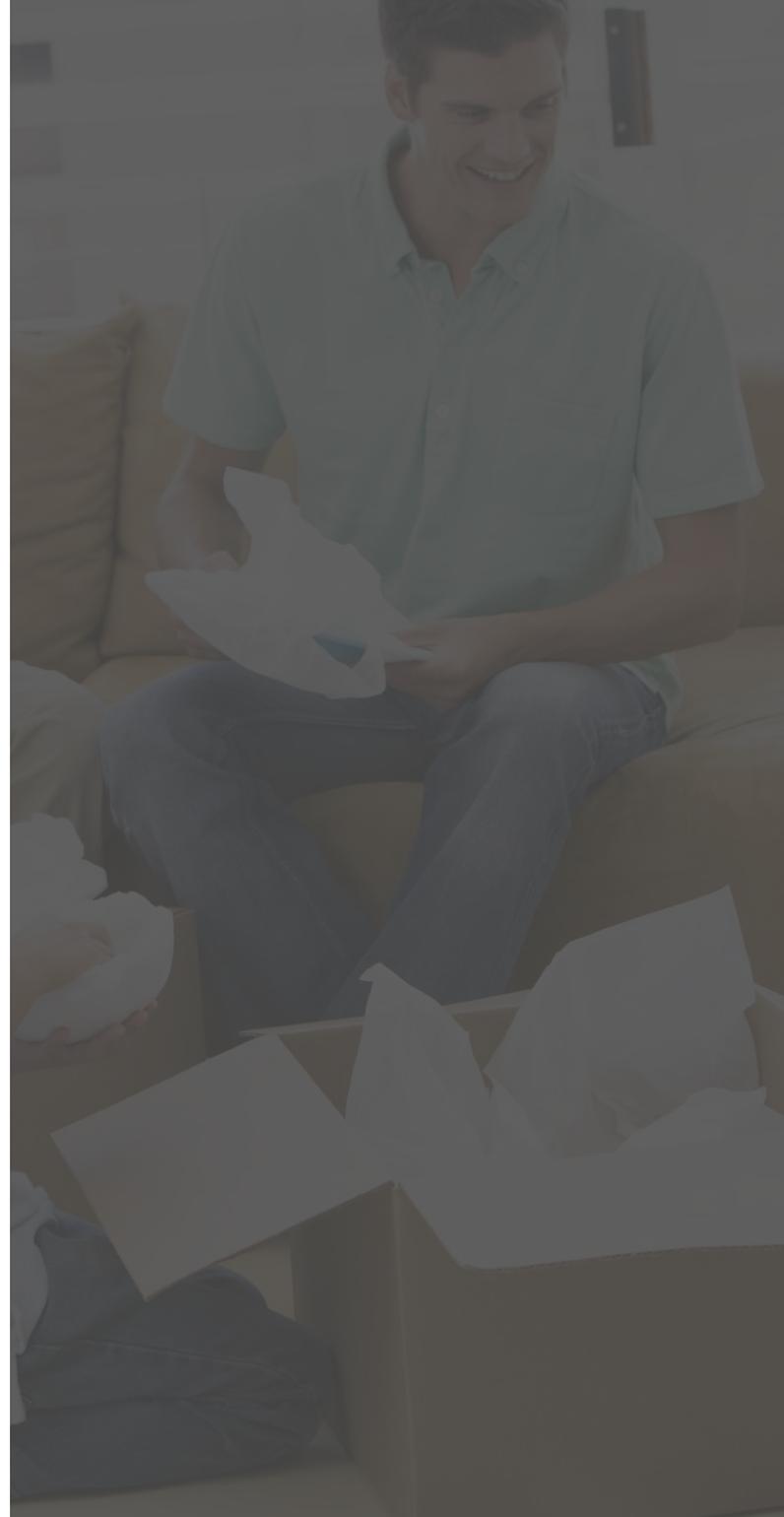
A Big Down Payment Is Not Always Necessary

There are a lot of misconceptions regarding down payments. One of the biggest misconceptions is that all borrowers need a down payment of 20%, or more, to qualify for a mortgage loan. According to a recent analysis by the National Association of Realtors, 39% of aspiring home buyers believed they needed more than 20% for a down payment on a purchase.

Another 26% of buyers thought they had to put down 15% to 20% to buy a house. The truth is, there are a variety of mortgage options available in Washington State that allow borrowers to put less than 20% down — and sometimes without mortgage insurance.

How a Higher LTV Could “Trigger” Mortgage Insurance

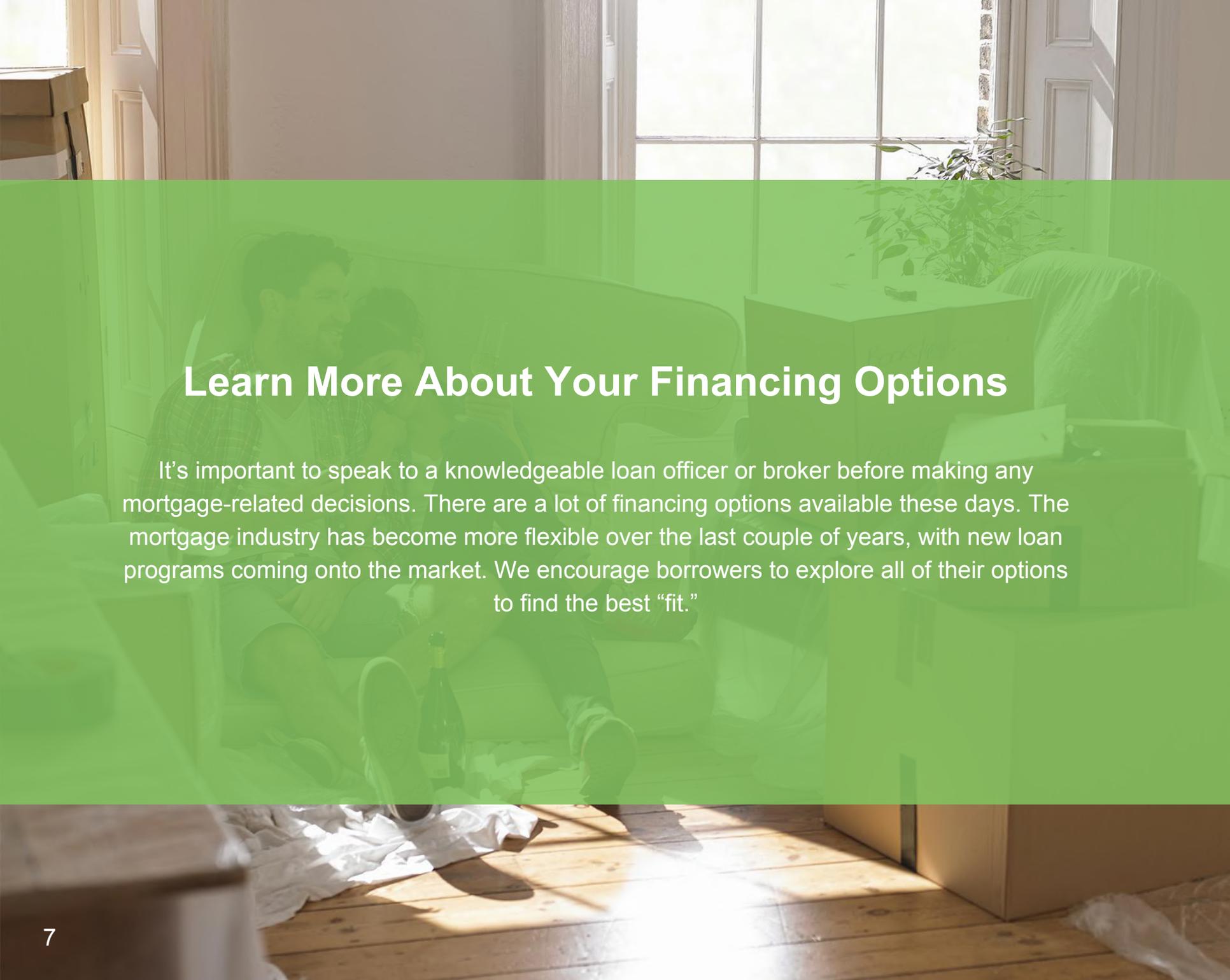
Private mortgage insurance, or PMI, is a policy that protects mortgage lenders from financial losses resulting from borrowers who default on their loans. As we noted above, a PMI policy generally is required in cases where the loan-to-value (LTV) ratio rises above 80%. For instance, if a home buyer makes a down payment of 5% and borrows the remaining 95%, PMI will likely be required. But there are ways to avoid triggering this insurance requirement in Washington State.



Options for Less Than 20 Percent Down Without PMI

We mentioned the 80/10/10 mortgage strategy for avoiding private mortgage insurance in Washington. This is when the borrower uses two loans to finance the purchase of a home. The first and second mortgage account for 80% and 10% of the purchase price, and the borrower pays the remaining 10% as a down payment. In the 80/10/10 scenario, the LTV on both loans remains at or below 80%. So this is one way to put down less than 20% without PMI.

There are other ways to accomplish this goal as well. Lender-paid mortgage insurance (LPMI) is another common strategy. This is where the borrower agrees to take on a slightly higher rate in exchange for the lender paying the private mortgage insurance up front. The end result is the same — the borrower can make a down payment below 20% without having to pay PMI. Washington State has a sizeable military population, so we have to include the VA loan program in this discussion as well. It's another way homebuyers can avoid private mortgage insurance. As an added benefit, this program offers 100% financing, eliminating the need for a down payment. It's hard to beat the VA program if you're a military member or veteran. We'll explore this and other zero-down mortgage options next.



Learn More About Your Financing Options

It's important to speak to a knowledgeable loan officer or broker before making any mortgage-related decisions. There are a lot of financing options available these days. The mortgage industry has become more flexible over the last couple of years, with new loan programs coming onto the market. We encourage borrowers to explore all of their options to find the best "fit."



ZERO-DOWN MORTGAGE OPTIONS FOR WASHINGTON STATE HOME BUYERS

Home buyers in Washington State seeking a zero-down mortgage loan have limited options. Most mortgage programs require some kind of upfront investment from the borrower, in the form of a down payment. But there are a couple of options out there, and the VA home loan is one of them. Here's what you should know about zero-down mortgage loans in Washington State.

What Is a Zero-Down Mortgage Loan?

A zero-down mortgage is one where the home loan accounts for 100% of the purchase price. In this scenario, the buyer does not have to make a down payment of any kind. The entire purchase can be financed.

Zero-down mortgages are rare in Washington State, with a few notable exceptions. That's because most home loan programs require some kind of down payment investment from the buyer. For example:

- The FHA loan program requires a downpayment of at least 3.5% of the purchase price or the appraised value, whichever is less.
- Conventional home loans generally require a down payment of some kind, which can range from 3% to 5% on the lower end.

With that being said, there are a couple of mortgage financing options available in Washington State that allow for zero down payment. One is the USDA rural loan program, and the other is the VA mortgage program for military members.

USDA and VA: No Down Payment Required

There are a couple of ways to buy a home in Washington State with no down payment. The USDA Rural Development loan program is available to borrowers in rural areas who meet certain income restrictions. The VA loan program offers 100% financing for eligible military members and veterans.



USDA: This program provides a 90% government guarantee to approved lenders, which enables them to offer home loans up to 100% of the purchase price. It's geared toward low- and moderate-income borrowers in eligible rural areas, including select areas within Washington State. It's a zero-down mortgage option, but it's only available to a fairly small segment of the population.



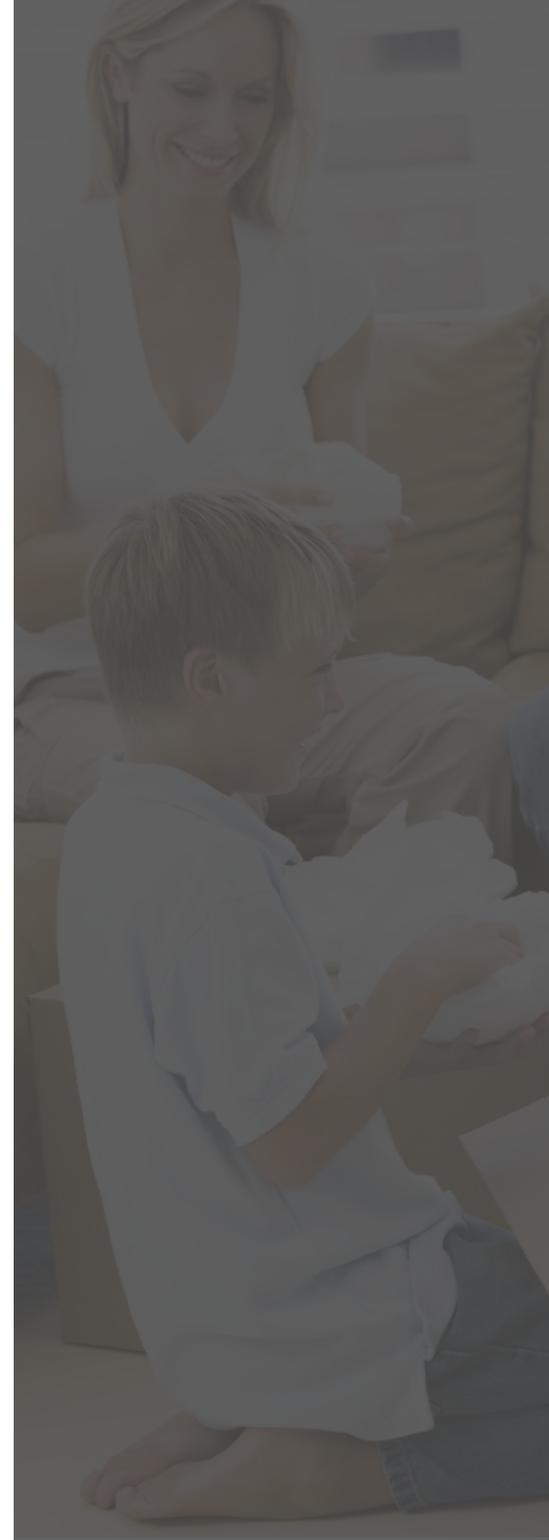
VA: The VA loan program is another way to buy a home in Washington with no down payment. We are particularly passionate about this program, because it rewards our brave men and women in uniform. Eligible borrowers can qualify for a VA loan up to 100% of the purchase price, eliminating the need for a down payment. Here are the [basic eligibility requirements](#).

Using Gift Money to Minimize Your Expense

An alternative to a zero-down mortgage is to use gift money from a family member or other approved donor. This is known as a down payment gift. These days, many mortgage programs allow for gift money from approved third-party donors. This applies to both FHA and conventional home loans. [Learn more about using gifts.](#)

It's not truly a zero-down mortgage option, because an upfront investment is still required. But with this strategy, the down payment doesn't have to come out of your own pocket. So it can reduce, or even eliminate, the out-of-pocket expense of buying a home in Washington State.

In addition to these zero-down mortgage options for Washington home buyers, there are certain types of home loans that offer a low down payment. We've covered some of the [most popular options here.](#)





DOWN PAYMENT ASSISTANCE FROM FAMILY: A WASHINGTON MORTGAGE STRATEGY

The down payment is often the biggest financial hurdle for home buyers in Washington State. This is especially true for first-time buyers, since they don't have any funds from a previous sale.

The good news is that Washington home buyers can get down payment assistance from family members, close friends, employers, and other sources. Here's what you need to know about this gifting strategy.

Getting Down Payment Assistance from Family

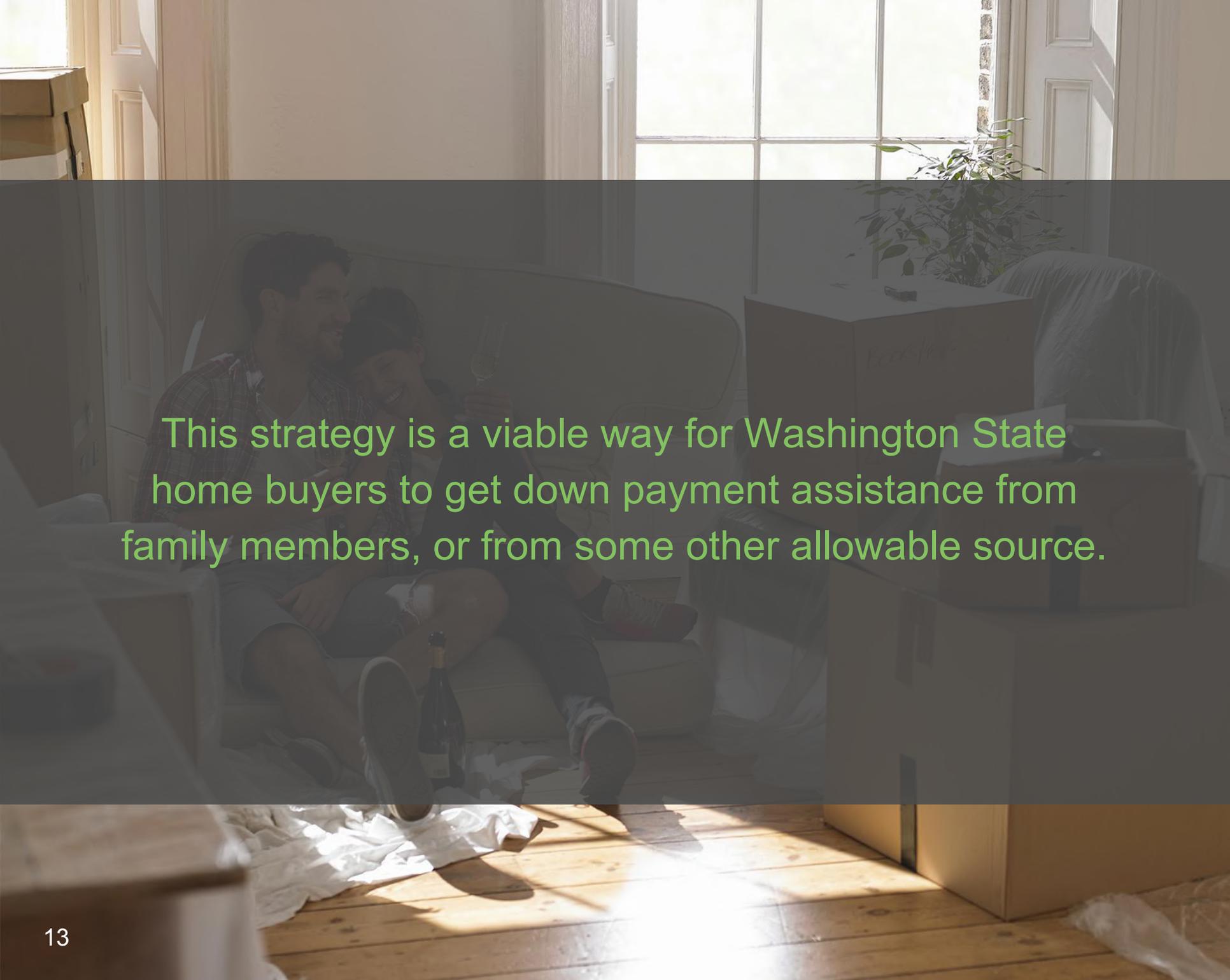
The down payment required for a mortgage can vary quite a bit, based on the type of loan you are using and other factors. For instance:

- A conventional mortgage might require anywhere from 3% to 20% down, depending on the amount being borrowed and the borrower's qualifications.
- FHA loans generally require 3.5% down, at a minimum.
- The VA program for military members offers 100% financing.

There are quite a few options out there. But what if you can't afford the down payment required for your chosen mortgage option? There's still a way to move forward. Most of the home loan programs available in Washington State today allow for down payment assistance from family members, employers and other approved donors. This is a little-known but empowering mortgage strategy that could help you overcome some financing hurdles.

The industry term for this is a "gift." But it's essentially a type of down payment assistance from an approved provider. It works like this:

- The borrower checks with his or her mortgage lender to see which programs allow for down payment assistance. (Many of today's loan products allow it).
- The borrower obtains funds from an approved source, such as a family member, employer, charitable organization, or a close friend. Allowable sources can vary based on the type of loan.
- The gift money is deposited into the home buyer / borrower's bank account, where it can be verified through bank statements.
- The person or group providing the down payment assistance writes a letter that states they do not expect any kind of repayment. It must truly be a gift — not a loan.
- The mortgage underwriter verifies that the borrower has the necessary funds for the down payment and other expenses, and that a gift letter has been provided by the third-party who donated funds.

A man and a woman are sitting on a light-colored sofa in a room that appears to be in the process of being moved. Several large cardboard boxes are stacked around them, some with handwritten labels. The man is on the left, wearing a plaid shirt, and the woman is on the right, wearing a dark top. They are both smiling and holding wine glasses, suggesting a celebratory occasion. The room has light-colored walls and a large window in the background, through which bright sunlight is streaming, casting shadows on the wooden floor. A potted plant is visible on a table to the right. The overall atmosphere is warm and positive.

This strategy is a viable way for Washington State home buyers to get down payment assistance from family members, or from some other allowable source.

Washington Mortgage Options With Low Down Payments

Borrowers should also know there are low-down-payment mortgage options available in Washington State. In this context, “low” means less than 20%. While a 20% down payment used to be the benchmark for the mortgage industry, that is no longer the case. Today, in 2020, there are several home loan options that allow for lower down payments — as little as 3%. We’ve covered some of them here.

Additionally, military members and veterans can often qualify for a VA-guaranteed mortgage loan that allows 100% financing. With this option, the borrower can avoid having to make a down payment altogether. Better still, these low-investment mortgage options can be used with the down payment assistance strategy mentioned earlier.

For example, a home buyer in Washington could use an FHA loan with a down payment of 3.5%, while obtaining

financial assistance from a family member in the form of a gift. The point is, today’s mortgage industry is more flexible than many people realize. There are a variety of loan options and financing strategies geared toward borrowers with limited funds for a down payment. Please contact us if you would like to learn more about these options.

Your Ability to Repay Is What Matters

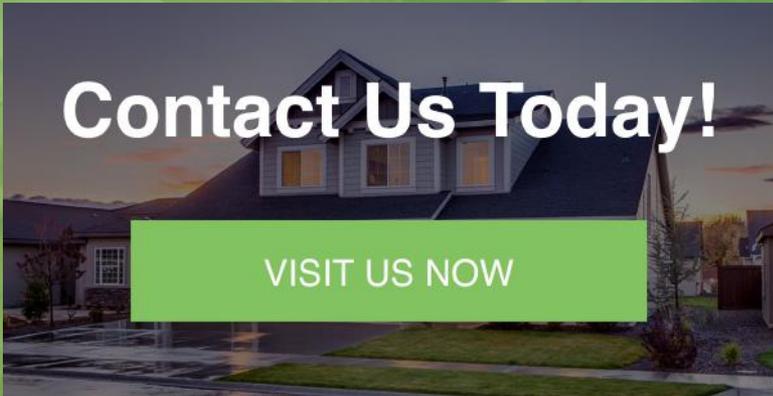
While it’s possible to buy a home in Washington with down payment assistance from someone else, you’ll still need to have sufficient income to repay the debt. Your ability to repay the loan is an essential component of the mortgage underwriting and approval process, and for obvious reasons. (Related: How much can I afford to buy?)

Lenders want to ensure that you have the financial ability to keep up with your monthly mortgage payments, along with your other recurring debts. That’s why banks and mortgage companies usually request bank statements, tax returns, and related documents. They do it to verify your ability to repay.

NEXT STEPS

Let's talk: Do you have questions about getting down payment assistance from family, in the form of a gift? Are you looking for a down payment option below 20%, while possibly avoiding PMI? [Contact Sammamish Mortgage](#) today. We can help you explore your options and choose a mortgage loan that works best for you. And if you'll be buying a home in Washington sometime soon? and need mortgage financing to make it happen, we can help. Sammamish Mortgage has been helping borrowers across the state since 1992. We look forward to hearing from you!

PLEASE [CONTACT US](#) TODAY
WITH ANY QUESTIONS YOU
HAVE, OR TO APPLY FOR THE
VA LOAN PROGRAM.



Contact Us Today!

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