

Home Mortgage Options for Smaller Down Payments

Most people hope one day to own a home of their own. But for some aspiring home buyers, pulling together the "necessary to qualify" 20 percent home mortgage down payment can be more than a little difficult. Fortunately, there are some options out there for those home buyers who struggle to gather together the full 20 percent. But as is true for pretty much every element in obtaining a home mortgage, each option has its pros and its cons. And depending on the health of the credit markets at the time you are looking for a loan, lenders may be more or less willing to be flexible with the terms of the mortgage.

Private Mortgage Insurance

Lenders usually like home buyers to put down at least 20 percent of the purchase price in order to qualify for a home mortgage with the most favorable terms. If, however, you cannot make such a large down payment, a lender may require that you obtain PMI, or Private Mortgage Insurance. If you find yourself unable to pay your mortgage, PMI protects the lender from losing money.

In general, PMI will cost around half of a percent of the price of the property you are purchasing. This means that, if you must purchase Private Mortgage Insurance, you will pay more for your home mortgage than you would without PMI. Fortunately, when you have gained equity in your home (you'll need 20 to 22 percent) you can request that the PMI be cancelled.

A variation on this arrangement is an FHA loan, which will be insured by the government. If you get an FHA loan, it is possible to qualify for a home mortgage even if you have only three percent or more for a down payment. Because FHA loans are insured by the government there are specific criteria for qualification that can vary by county. Check with your loan officer or mortgage broker to see if you are eligible.

80, 10, 10 Home Mortgages

For those want to avoid the expense of PMI, there is another option. This is called an 80/10/10 home mortgage. With this option, you will use a second home mortgage to finance part of the down payment. 80/10/10 works more or less like this: your first, larger mortgage will cover 80 percent of the cost of your home. You will take out a second mortgage to pay a down payment of 10 percent. Then you will provide the remaining 10 percent of the down payment out of pocket.

About the Author

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