

Get the Down Payment You Need

Down payments are a hot topic for anyone purchasing a home, especially those doing so for the first time. While repeat buyers may be able to use proceeds from the sale of a previous home, new buyers are starting from square one. Saving for a down payment may take time and sacrifice; however, it's one that pays off.



What are the most common sources of a down payment?

While the majority of first-time and repeat buyers rely on their savings to cover their down payment, other options include: monetary gifts from family and friends, borrowing money from retirement accounts and selling investments.

Savings

By far the most common source of down payments is savings. Many buyers reduce their spending to save more for their down payments. While the length of time they save varies, it's clear most buyers, particularly first-time buyers, save for a few months before moving forward.

Gifts from family and friends

Many young first-time buyers receive financial help from their parents to round out their down payment. If you're counting on a family member or friend to help with your down payment, they may be required to write a letter stating the money is a gift and not a loan that needs to be repaid.

Borrowing from your retirement

Another option is to borrow a portion of your retirement savings. While you're allowed to borrow from your individual retirement account (IRA) or your 401(k) to pay for a home, pay attention to the rules for borrowing so you don't get penalized, taxed or both. Before borrowing, consider how your overall financial situation plays into your future retirement and career aspirations.

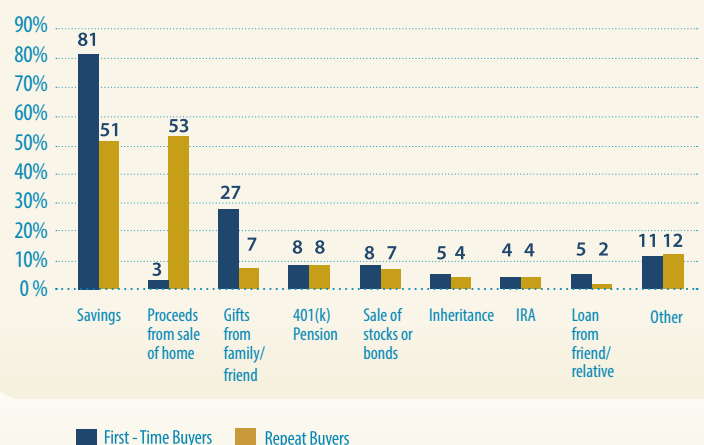
How long did buyers save for a down payment?

Saving for a down payment may seem intimidating at first, but once you understand the habit of saving, it starts to add up. The majority of first-time buyers (51%) saved for a year or less before they purchased a home, while 21% saved from one to two years.* Still, 28% saved for more than two years for their down payment.*

Repeat buyers commonly saved for six months or less, perhaps bolstered by the sale of their previous home.* Twelve percent saved for six months to a year, 11% saved for one to two years and 23% saved from two to five years for a down payment on their next home.*

Sources of Down Payments

(note: respondents were able to choose more than one answer)*



*Source: NAR 2015 Profile of Home Buyers and Sellers



Why Save for a Large Down Payment?

Are you wondering how much to save? There are benefits to having a large down payment and to keeping your down payment small. Whatever you decide, be sure that it's right for your financial situation.

Benefits of a large down payment

- **You'll need to borrow less.** The less you borrow, the sooner you may be able to pay it back.
- **More equity in home.** The more money you put down, the more equity you'll have in your home right away.
- **Pay less total interest costs over time.** The less you need to borrow, the less interest you'll pay.
- **No mortgage insurance.** If you put down 20 percent or more, you may not have to pay for this additional insurance.

Benefits of a smaller down payment

- **Get into a home sooner.** There is financing available for buyers with smaller down payments.
- **Your savings remains liquid.** While you may have a large amount of money saved, not putting it all into a down payment gives you the flexibility to make renovations once you've purchased a home.

What did buyers sacrifice to purchase their homes?

While the majority of buyers stated part of their savings technique was a reduction in spending, some made bold choices to cancel vacations and secure second jobs.

Sacrifices Made to Purchase a Home

(note: respondents were able to choose more than one answer)

Sacrifice Made	First-time Buyer	All Buyers
Cut spending on luxury or non-essential items	49%	33%
Cut spending on entertainment	39%	25%
Cut spending on clothes	33%	20%
Canceled vacation plans	20%	15%
Got a second job	12%	8%

Source: NAR 2015 Profile of Home Buyers and Sellers

