



## Down Payment Gift Programs

You may have heard that the traditional down payment is equal to 20% of the home price. You may have also heard of lenders that offer programs with “little money down.” Still even a down payment of just 5% may seem like an overwhelming amount for you to save up. If you could truly afford the normal mortgage payment, but do not have much hope of saving up enough for a down payment you may be able to turn to a down payment gift program for help.

In order to participate in one of these programs, you must find a seller who is also willing to participate. This is because the “gift” part must essentially come from the seller. You may wonder why any seller would be willing to give you money in a home sale. The truth is that in a market like today’s there are many more houses on the market than there are buyers, and many desperate sellers are forced into very “cooperative” moods in order to sell their homes.

Mortgage laws allow for sellers to give buyers money at closing to help pay for closing costs, but it is against the law for sellers to gift you funds for a down payment. Down payment gift programs were created to solve this problem in a round about way.

Here is how it works: you negotiate with the seller to “lower” the price on the home to be sold. Then he will “donate” the amount of money equaling the amount of help he agreed to give you to a non-profit organization. That organization will also collect a fee for administrative costs, typically around 0.75% the price of the home. The organization then gives a “gift” to the buyer equaling the amount the seller donated and the buyer uses those funds to make a down payment on the purchase. This amount is generally between 1% - 7% of the home price.

You must be careful when selecting an assistance organization, however, as the Department of Housing and Urban Development does not endorse or approve the programs. You and the seller are responsible for finding a trustworthy organization.

You should realize that there are a few requirements for participation in such a program. First, you must be able to qualify for home loan program that allows for down payment gift assistance. Also, any unused portion of the gift must be returned to the non-profit organization. There may be restrictions as well on the total price of the home you want to buy. You should be aware that the funds can only be used for closing costs and the down payment, not for home repairs or improvements or refinance loans.

Some of the nice features though are that you do not have to meet an income minimum or maximum requirement and you can use the program for buying either a new or existing home.

If you are ready to buy a home and need some help with your down payment, now may be the perfect time to find a seller ready to help you through a down payment assistance program. Be prepared to go through some extra paperwork, but realize that it will be worth it to finally become a homeowner.