

Name _____

Cracking the Code of Down Payments: Your Key to Homeownership

Open-Ended Response Answer Key

1. A 20% down payment can positively influence the terms and conditions of a mortgage by reducing the amount borrowed, leading to lower monthly payments and potentially better interest rates. It is recommended because it can save money over the life of the loan and may eliminate the need for private mortgage insurance (PMI), reducing overall loan costs for the borrower.
2. Government-backed loan programs offering smaller down payment options can provide opportunities for borrowers with limited savings or lower credit scores to become homeowners. However, they may come with drawbacks, such as the potential for higher overall loan costs. Factors influencing a borrower's choice between a conventional loan and a government-backed program include their financial situation, credit score, and the availability of down payment funds.
3. Creating a budget and automating savings are essential practices when saving for a down payment on a home. A budget helps prospective homebuyers track expenses and set savings goals, while automating savings transfers ensures consistency and discipline in saving. These practices help individuals reach their savings goals more effectively and avoid the temptation to use the down payment money for other purposes.
4. Private mortgage insurance (PMI) is insurance that lenders require when the borrower's down payment is less than 20% of the home's purchase price. Borrowers can avoid or minimize PMI costs by making a down payment of at least 20% or by exploring loan programs that do not require PMI. Another option is to request PMI removal once the borrower has built sufficient equity in the home by paying down the loan balance or through home price appreciation.

