The Down payment: More or Less?

The question is:
How much cash should a buyer use as a down payment and how much of a loan should they apply for?

Well, there is no straight answer to that question. There are several factors that affect the down payment, such as the type of loan you're applying for, your income, your available cash-on-hand, to name a few. It also depends on your long term goals for the home you are buying. Here are a few things to think about:

- 20% Down - Breathe! The benefits to putting 20% down are fairly straightforward. First, by putting 20% down, you borrow less which means you repay less. Second, you will not have to pay private mortgage insurance (PMI) on the loan, effectively saving you $40 to $70 a month.

- Less than 20% Down - This is a more common option for first time buyers. Many loan programs offer buyers the ability to purchase a home with as little or no money down. This allows you to conserve your cash for other expenses. The flip-side to putting less than 20% down is that lenders will require you to pay private mortgage insurance (PMI). PMI is a monthly fee that the borrower pays if the loan exceeds 80 percent of the purchase price. Since a lower down payment results in a statistically higher risk to the lender, PMI insures a portion of the loan to reduce the risk to the lender. There are ways to put less than 20% down and still not have to pay PMI. You'll want to check with your lender for these options to see if one is right for you.

- The Monthly Payment "Comfort Level" - This is probably the most important issue that will dictate how much cash you put down. If you have good credit and a solid income, most lenders will qualify you for a loan amount larger than you would ever want. Before speaking with a lender, take a good look at your personal finances and spending habits. Be sure to include all of your expenses, from the utilities to dinner and a movie. Then decide just how much you are willing to pay for a home each month.

- Taxes. It's important to understand the benefits of mortgage interest and the real estate tax deduction. Since you will own the home, you will be able to deduct all the interest and taxes you pay on the home. Consult a tax expert on these issues, but it's important to get an idea of how much of a tax break you will receive if you own the home. This will also help you decide your mortgage amount.

- Opportunity costs. Ask yourself this question: What am I giving up by putting 20% down? If the purchase price of your home is $200,000, are you going to miss $40,000? What is that money currently doing? Is it earning a good rate of return? Will you have to sell securities and pay capital gains taxes to liquidate that money? Be sure to investigate the true costs associated with a large down payment.

- Other debts. Don't forget to consider any other debt you may have. For example, if you are carrying substantial credit card debt, it would probably be better to pay the cards off instead of putting down a large down payment. Or perhaps you only owe $10,000 on your automobile. It would be better to pay off the car, and put the difference towards the down payment, thereby eliminating another expense.

Ultimately, the decision on what amount to put down will be up to you. Consider this a step in the right direction. There may be other factors to consider, so think carefully. When in doubt, talk to friends or relatives that have purchased homes. They may be able to provide you with additional insight.