MGIC

MOVE-UP BUYERS:

Why putting down less can be more.

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Thanks to increased equity, home improvements and a competitive market, most move-up buyers have enough money from the sale of their previous home to put 20% down on their next house. But is that always the best choice?

- 34% of Americans have $0 in retirement and another 21% have less than $10,000 saved.[1]
- 44% of parents currently saving for college report feeling guilty for not stashing away more.[2]

Your move-up buyers may be interested in learning how putting down 15% or 10% allows them to keep more of the profits from the sale of their current home for other purposes, such as beefing up their retirement account, paying tuition or buying new furniture and appliances for the new house.

By informing your borrowers about down payment options, they can decide if they want to keep some of their profit for other big-ticket expenses – or put down less to buy more house.

Making the new house a home.

Your borrower may have fallen in love with the new house, but not enough to keep it as is. Within the first year of buying a new house, the average homeowner spends $8,233 - $10,601 on appliances, furnishings and home improvements.[3] Putting down less than 20% frees up cash to pay for improvements like updating the kitchen, adding a deck or installing air conditioning.

Move into that dream home sooner.

Who says you have to go from a small house to a medium-sized house before you can afford your dream house? Show your borrowers how they can increase their purchasing power and expand their home search by putting down less than 20%. Your borrower may be surprised to see that for approximately the same down payment amount, they may be able to buy a lot more house.

Here's how move-up buyers can afford to make renovations immediately:

This example shows how putting down 15% allows the borrower to retain $17,500, or $35,000 with a 10% down payment. Of course, this assumes your borrower can afford the additional $134 or $243 to their monthly mortgage payment. At $243 a month, it would take 12-years to build up $35,000 in savings.

	20% down	15% down	10% down
Home purchase price	$350,000	$350,000	$350,000
Down payment	$70,000	$52,500	$35,000
Amount borrowed	$280,000	$297,500	$315,000
Difference in savings	$0	$17,500	$35,000
Monthly MI	$0	$40	$55
Monthly P&I+MI	$1,503	$1,637 ($134 more)	$1,746 ($243 more)
Estimated MI cancellation in months (Assumes 3% annual appreciation)	n/a	35	49

Assumes 30-year fixed rate at 5% interest rate; multiple borrowers; 760 credit score and DTI below 45%. MI rates as of July 9, 2018.

Here's how move-up buyers can afford more house:

See how a 20% down payment on a $350,000 home is relatively similar to a 15% down payment on a $425,000 or $450,000 home. This scenario allows borrowers to move into their ultimate home sooner – and avoid the hassle and expense of another move later. Obviously, buyers need to comfortably afford the increased monthly mortgage of a higher-priced home. And, putting less than 20% down requires mortgage insurance, but MI is a temporary cost that can be cancelled.

	20% down	15% down on $75,000 more home	15% down on $100,000 more home
Home purchase price	$350,000	$425,000	$450,000
Down payment	$70,000	$63,750	$67,500
Amount borrowed	$280,000	$361,250	$382,500
Difference in savings	$0	$6,250	$2,500
Monthly MI	$0	$48	$51
Monthly P&I+MI	$1,503	$1,987	$2,104
Estimated MI cancellation in months (Assumes 3% annual appreciation)	n/a	35	35

Assumes 30-year fixed rate at 5% interest rate; multiple borrowers; credit score 760 and DTI below 45%. MI rates as of July 9, 2018.

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Endnotes:
[1] GOBankingRates Life + Money Survey
[2] USA Today February 2018
[3] National Association of Home Builders special study, Spending Patterns of Home Buyers, July 2017

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MGIC Plaza
Milwaukee, WI 53202
mgic.com

71-43785 9/1/18