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Down Payment Hurdle Is Getting Lower

By JAY ROMANO

Correction Appended

A FEW months ago, Todd and Melissa Greenberg, who had moved to New York City from the Midwest, started looking for a house in Westchester County. The Greenbergs, both of whom work in the health-care industry, knew they earned enough to buy a house but were concerned about getting a mortgage without a substantial down payment.

"We were caught up in the New York City catch-22," said Mr. Greenberg, 31. "The one where you pay so much for rent that you can't save enough money for a down payment so that you can stop paying so much for rent."

But then they began talking to mortgage brokers. "I was astonished," Ms. Greenberg said. "There are all kinds of programs out there. You can put 5 percent down, you can put 7 percent down, you can do it this way, you can do it that way. I had no idea there were so many choices."

The Greenbergs are representative of many first-time homebuyers -- young people at the beginning of their careers who, despite good incomes, have not been able to save the traditional 20 percent down payment for a house. But what they did not know was that the traditional 20-percent-down mortgage may no longer be the mortgage of choice.

It has become increasingly common for buyers -- particularly first-time buyers -- to finance 90 percent, 95 percent or even 100 percent of their purchase. And while low-down-payment mortgages are often associated with lower-income purchasers looking for low-cost homes in urban areas, such mortgages are also being used by moderate-income purchasers financing their first home in suburbia. "It has become too difficult for most first-time buyers to save the money needed for a down payment," said Oded Ben-Ami, regional manager of Sterling National Mortgage, a mortgage broker based in Great Neck, L.I. By making low-down-payment mortgages more available to borrowers, he said, the lenders are merely adjusting to the conditions of the marketplace.

The Greenbergs found a two-bedroom condominium in the low two hundreds. The mortgage was affordable, but they didn't have the $40,000 that would be required for a traditional 20 percent down payment. And since the couple wanted to use the condominium as a stepping stone into a larger house in a few years, Mr. Ben-Ami, their mortgage broker, suggested that they apply for an adjustable-rate mortgage with a low-percentage down payment.

The mortgage they applied for, he said, requires a 5 percent down payment, will carry a lower-than-market introductory interest rate for the first seven years and will then adjust yearly thereafter. By that time, though, the Greenbergs hope they will have already moved on to their next house.

Mr. Ben-Ami said there were programs available that require as little as 3 percent down. "And even with that," he said, "there are ways to achieve effectively zero percent down." For example, he said, eager sellers can assist cash-poor buyers by contributing to the closing costs.

A recent survey by Chicago Title and Trust Company, a Chicago-based title insurance company, found that the average down payment made by first-time homebuyers has been getting lower in recent years. In 1976, for example, the average down payment for a first-time buyer was 18 percent. Last year, the average was around 13 percent. Moreover, the study revealed, in 1995 nearly 45 percent of all homebuyers put less than 10 percent down on their homes.

"And most of them are first-time buyers," said John Pfister, vice president in charge of marketing research for the company.

Residential mortgages are generally described either as conventional or insured mortgages. A conventional mortgage would typically be one in which the lender requires a 20 percent down payment to insure adequate equity in the mortgaged property in the event of a default.

An insured mortgage, on the other hand, is one in which the equity in the property is less than 20 percent. To achieve the same level of protection as there would be with a conventional mortgage, the lender requires the borrower to purchase "private mortgage insurance" to insure the difference between the actual down payment and the 20 percent typically required for lenders to feel comfortable.

Ellen Schweppe, executive director of the Mortgage Insurance Companies of America, a trade association in Washington, said that while rates may vary, the monthly private-mortgage-insurance premium for a borrower buying a $200,000 house with 10 percent down and a 30-year fixed-rate mortgage would be about $75. With five percent down the monthly premium would be about $120.

But since mortgage insurance is required only when the borrower's equity is less than 20 percent, Ms. Schweppe said, the monthly premium is not necessarily permanent. It is possible for buyers to eliminate the necessity for mortgage insurance once the equity in their home reaches 20 percent. That can happen either through appreciation of the value of the property or by the borrower paying down the balance on the loan over the years.

The most familiar "low-down-payment" programs have been those sponsored by the Federal Housing Administration and the Department of Veterans Affairs (formerly the Veterans Administration). The F.H.A. program targeted low- to middle-income buyers, while the latter was available only to veterans; both were backed by the "full faith and credit" of the United States.

The application and approval processes for F.H.A. and V.A. loans, however, were often considered difficult and time-consuming, causing sellers to balk at a mortgage contingency clause that specified such a loan. As a result, the conventional-mortgage process has often been considered easier and more streamlined than government programs.

THAT has changed in the last few years, however, as secondary-market investors such as the Federal National Mortgage Association, better known as Fannie Mae -- which package blocks of loans and sell them to private investors -- have made it easier for mortgage lenders to market low-down-payment loans.

Fannie Mae's Community Home Buyer's Program, introduced in 1990, makes it possible for buyers to obtain 95 percent financing up to a total of $207,000 for single-family homes. In 1994, Fannie Mae introduced Fannie 97 -- a 3-percent-down-payment program for home buyers with good income and credit history who have been unable to save for a down payment. Under both programs, qualified buyers in the New York region who have total household incomes of $70,950 or less are eligible.

"Buying a house should not be like climbing Mount Everest," said Julie Gould, Fannie Mae's vice president for community lending.

In addition to the low down payment, Ms. Gould said, both programs offer relaxed requirements on the ratio of incomes to mortgage payments. Under normal Fannie Mae guidelines, a borrower's monthly mortgage payment -- which includes principal, interest, real estate taxes and homeowner's insurance -- cannot exceed 28 percent of total household monthly income.

"With the Community Home Buyer's Program you can stretch the income ratio to 33 percent," Ms. Gould said, explaining that regardless of which program is used, the interest rates are the same as they would be for a conventional mortgage.

Keith T. Gumbinger, vice president of HSH Associates, a mortgage-research and publishing company in Butler, N.J., said that Fannie Mae's active participation in the low-down-payment mortgage market has made it not only easier to buy a house with as little cash as possible, but smarter, too.

"The benefits of putting down as much as possible have disappeared," Mr. Gumbinger said. "People who have saved $15,000 or $20,000 are now saying, 'Why should I tie everything up in a house when I can take my cash and invest it on my own?' "

In fact, that is what Evan and Tracey Levy said when they started looking for their first house.

"We knew we wouldn't need to put 20 percent down," said Mr. Levy, a newly practicing lawyer who was moving to Greenburgh, N.Y., from Albany. "It's important for new home buyers to make sure they're not house poor. So we decided to put just 10 percent down and have money left over to buy something to sit on."

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Mr. Levy, whose wife is also a lawyer, was able to persuade his lender to not only allow a 10 percent down payment on the $287,000 house they liked, but to do so without requiring private mortgage insurance.

"I told them I would pay a higher interest rate if they would eliminate the requirement for P.M.I.," Mr. Levy said, using the abbreviation for private mortgage insurance. The one-quarter of a percentage point increase in the mortgage rate he agreed to pay, he said, increased his monthly payment by roughly the same amount as the mortgage insurance payment would have.

"What we accomplished was to take the P.M.I. and make it tax deductible," he said, explaining that while private mortgage insurance payments are not deductible, mortgage interest payments are.

Another concession Mr. Levy received from his lender was the right to make his own real estate tax and insurance payments -- thereby eliminating the requirement for expensive escrows at closing.

"The bank was very flexible," he said. Their mortgage was issued under a program that the bank, Chase Manhattan, has designed specifically for borrowers, such as lawyers, who are in the early stages of what are traditionally lucrative careers.

The Levys' real estate agent, Laurie Bell, principal broker for Balch Real Estate, a buyer's broker in Mamaroneck, N.Y., said that while buyers were becoming more knowledgeable and savvy about mortgage financing, sellers were still somewhat skittish about buyers who are applying for low-down-payment mortgages.

"Some of these buyers may be earning in six figures," Ms. Bell said. "But unfortunately, many sellers are still of the mindset that if the buyer is putting down less than 20 percent, it's a risky deal." ONE solution to that problem is to do what Mr. Levy did.

"I shopped for my mortgage first," he said. "That way, when I walked into a house, I could tell the seller I already had the cash in my pocket."

Grant Mydland, president of the American Homeowner's Association, a Washington-based consumer organization, said that another source of low-down-payment mortgages is the programs offered to residents by many states. For example, the State of New York State Mortgage Agency (commonly known as Sonyma), the Connecticut Housing Finance Authority and the New Jersey Housing and Mortgage Finance Agency offer low-interest, low down-payment loans on new construction to first-time buyers.

Such state-sponsored programs often carry limits on how much borrowers may earn to be eligible for a mortgage. In many cases, such limits are based on the average income in a particular area. For example, the maximum allowable income for Sonyma's Construction Incentive Program -- which provides low-interest, no-down-payment mortgages for the purchase of newly constructed homes -- ranges from $44,100 for a two-person family in all of New York City to as high as $91,560 for households of three or more in parts of Westchester County. The maximum allowable purchase price also varies, from $138,900 in upstate areas to $203,800 in New York City and Westchester. Under the program, the higher income limits and purchase prices are allowed in certain "target areas" -- Federally designated economically depressed areas.

Some private lenders have gone beyond even 97 percent mortgages -- allowing borrowers to finance 100 percent of their home -- without having to pay private mortgage insurance premiums.

Merrill Lynch, for example, offers a program called Mortgage 100 in which qualified home buyers can mortgage the entire purchase price of their house by transferring securities to a Merrill Lynch account and then agreeing to maintain the account at certain levels.

And for those who aren't so fortunate but whose parents are, the company offers Parent Power -- a 100 percent mortgage program that allows parents to provide help to their children in purchasing a first home without actually parting with any cash.

Hal Minot, senior vice president of marketing and business development for Merrill Lynch Credit Corporation in Jacksonville, Fla., said that under the Parent Power program a parent or close relative can pledge securities transferred to a Merrill Lynch account as a guarantee of a mortgage. Under both programs, in which Merrill Lynch issues the mortgages, the owner of the securities retains the right to trade them. The only caveat, he said, is that the market value of the securities at the time the mortgage is made must be at least 39 percent of the mortgage amount. If the value of the securities drops below 33 percent anytime thereafter, and the account is not replenished, the securities can be sold by Merrill Lynch and held as cash collateral.

"It's not the house that's a person's largest purchase, it's the mortgage," Mr. Minot said. "We believe that managing what you owe is as important as managing what you own."

Additional information on low-down-payment programs -- including state-sponsored programs -- can be obtained by calling Fannie Mae (800) 732-6643; the New Jersey Housing and Mortgage Finance Agency (609) 278-7400; the Connecticut Housing Finance Authority (203) 721-9501; the State of New York Mortgage Agency (800) 382-4663; HSH Associates (800) 873-2837; and the American Homeowner's Association (703) 892-4663.

Photos: Todd Greenberg, center, his wife, Melissa, and Oded Ben-Ami,their mortgage broker, review mortgage papers. (Photographs by Andrew Lichtenstein for The New York Times); Evan and Tracey Levy outside Greenburgh, N.Y., home; they put only 10 percent down. (Susan Harris for The New York Times)(pg. 1) Graphs showing average down payment of new homeowners as as percentage of price of home and percentage of all purchasers who make doen payments of less than 10 percent of home price from 1976 to 1995. (Source: Chicago Title and Trust Co.)(pg. 4)