Buying a Home Without a Big Down Payment

Generally, you need to have a down payment of 10-20% of a house's price to get a mortgage. Most lenders require a good credit score (620 or higher) and enough income to afford payments before they approve a mortgage loan. Although there are programs to help people with lower incomes buy homes with smaller down payments, the credit score and income requirements can be a problem.

The U.S. Department of Housing and Urban Development (HUD), state agencies (such as the Wisconsin Housing and Economic Development Authority (WHEDA)), local community groups, and some banks and credit unions offer homebuyer education courses. These courses help people get ready to apply for a mortgage, buy a home, and take care of it. Some lenders, like WHEDA, even require buyers to complete a homeownership education course before they will approve a mortgage. You can find more information about this on the WHEDA website or on the Consumer Financial Protection Bureau's website.

Down Payment Assistance

Some government-backed and nonprofit lenders do not require a large down payment, and sometimes they do not need any down payment at all. They may also offer grants or loans to help with the down payment. These loans are made through banks who participate in the programs that fund or guarantee the loan, and the down payment loans/grants usually come from local government agencies or nonprofit organizations.

WHEDA offers down payment assistance or a 3-3.5% down payment for people under a certain income: https://www.wheda.com/homeownership-and-renters/home-buyers/available-programs

Some cities in Wisconsin (including Madison, Milwaukee, Green Bay, and Wausau) and community action agencies offer down payment and payment assistance for first-time homebuyers. You can find more details on these programs here. Some grant programs for buying a home in southeastern Wisconsin are also listed here. Buyers still need to get a mortgage for the rest of the home’s cost.

Mortgages with Little or No Down Payment

Military service members and veterans may qualify for a VA mortgage with no down payment. You can find more information here.

Buyers in rural parts of the state may be able to get a U.S. Department of Agriculture (USDA) loan, which also doesn’t require a down payment, and may be available for very low income buyers. You can learn more about it here and here.

FHA loans may be best for buyers with lower credit scores (580) and less money to put down (as low as 3.5% down) but have other requirements regarding the type and condition of the property.

Mortgage Terms

Note: A home loan includes a promissory note, which lists the loan terms like the interest rate, monthly payment, and loan term (usually 15, 20, or 30 years). Anyone who signs this note is responsible for making the payments and will receive any updates about the account.

Mortgage: The mortgage is a “security instrument” that uses the house as collateral to secure the loan. It allows the lender to require payments and explains what happens if payments are missed or taxes and insurance are not paid. In some cases, it allows the lender to foreclose faster if they agree not to ask for more money after taking back the property (this is called a waiver of deficiency). The borrower(s) must sign the mortgage, and if they are married the spouse usually must sign too (unless the loan is being used to purchase the house).

Escrow: Most mortgages require the borrower to pay into an escrow account for property taxes and insurance. That amount is added to the principal and interest payment listed in the loan note, so the monthly payment will include the escrow payment. The payment may change each year if taxes or insurance costs go up or down.

Private Mortgage Insurance (PMI): Many mortgages with lower down payments require borrowers to pay for private mortgage insurance. PMI protects the lender’s loan if the home is destroyed and homeowners’ insurance doesn’t cover the debt. PMI usually ends when the mortgage balance is paid down to 80% of the property’s value.

Closing statement: Almost all lenders now use title insurance to protect the bank and homeowners against any problems with the property’s title. Before the meeting with the title insurance company, seller, and realtor(s), a HUD statement is prepared. This statement shows how much is being paid, which costs are covered by the seller and the buyer, and the total cost of the mortgage over the years (this is called the Truth in Lending disclosure). It is a good idea to review the closing statement before the closing meeting, and you should receive copies of all the loan documents after the closing. Make sure to keep those copies in case there are problems with loan terms being changed or misunderstood.

Offer to Purchase

Pre Approval or Pre Qualification: Before you make an Offer to Purchase to the home seller or their realtor, getting pre-approved or qualified shows that you are likely to get the loan you need to buy. It also tells you how much your lender thinks you can afford.

Offer and Acceptance: Once you find a home you want to buy, you or your realtor (if you have one) will write an Offer to Purchase. This document states how much you are willing to pay and any “contingencies” or conditions of your offer. The most common contingencies are financing and inspection contingencies. Financing must be approved by the bank, which can take weeks, and an inspection checks for any defects and repairs needed in the home. The buyer usually needs to offer “earnest money” (not a down payment) to show they are serious about buying, and if the offer is not accepted that earnest money should be returned.

The seller will respond by accepting, rejecting (usually for a better offer) or making a counter offer. The offer is only accepted when both parties agree on the terms, creating a binding contract to buy/sell if the contingencies are met or removed.

Contingencies and Inspections

The buyer must get the financing and arrange (and pay for) any inspection. If the buyer cannot get financing, the deal falls through, and if they discover material defects that affect the health and safety of the property, buyers may back out of the deal, negotiate a lower price, or ask the seller to make repairs. Some cash buyers will not need financing, which makes their offer more attractive to sellers. Waiving the inspection can also look good to the seller, but it puts the buyer at risk of later finding out that expensive repairs are needed.

Last updated on March 20, 2025.

Mortgages Owning Your Home Housing

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Table of Contents