

## **How Important is the Down Payment in the Mortgage Process?**

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The decision to purchase a home is perhaps the single most important investment that an individual makes in his or her lifetime. It should not be taken lightly and as such, it must be carefully planned.

The actual mortgage application process requires a full assessment and examination of an individual's present financial situation as it relates to the repayment of the mortgage loan.

There are a number of components that must be considered when conducting a mortgage assessment. Some of these components would include the examination of income sustainability; good credit history; updated financial statements; evidence that the property's rates and taxes are paid up to date; debt service ratio of the potential mortgagor and evidence of a down payment for the purchase of a property.

The down payment represents the initial payment made by the buyer to the seller towards the purchase of a property. It indicates the buyer's intent and interest to purchase. It is advised that this transaction is facilitated through a Purchase or Sales Agreement. The Purchase or Sales Agreement is a binding legal document that states the conditions required by both parties to close the deal.

The down payment (up-front cash) required for a mortgage transaction can range from 10% to 30%, depending on the policies of the mortgage lending institution. For instance, a property costing \$800,000.00 would require a startup cash injection of \$80,000.00 to \$240,000.00.

The down payment can affect the entire mortgage process in the following areas:

### **1. How the Sales or Purchase Agreement is written:**

Since the Sales or Purchase Agreement includes the down payment made by the potential buyer, the mortgage officer uses this information along with its receipt, as proof that a payment was made; it also guides the institution on the mortgage loan requirement needed to complete the purchase transaction.

### **2. The mortgage qualification process:**

A higher down payment translates into a lower mortgage loan requirement. This places the potential buyer in a beneficial position during the mortgage application process since there is reduced risk to the mortgage lending institution. This in turn can strengthen the buyer's mortgage application.

### **3. Negotiation for attractive rates and conditions:**

The ability to better negotiate for attractive interest rates or conditions in the mortgage facility can be taken into consideration by the mortgage institution.

### **4. The mortgage (loan) instalment:**

The monthly mortgage (loan) instalment is determined by the loan rate; the duration of the loan; the loan amount to be repaid; income of the mortgagor/s, and the down payment made. The down payment is important since it can affect all of the above factors. A higher down payment can shorten the term of the mortgage, which also affects the total interest paid on the life of the loan.

The down payment plays a key role in the entire mortgage process. It is advisable that a separate savings plan be set up to assist potential homeowners in their determination for home ownership. The TBLA Down Payment Savings Plan can assist the potential homeowner save towards the cash requirement needed to purchase a home. Start talking to a mortgage officer about your desire to own your home and they can assist you in turning your dream into a reality.

**The Trinidad Building and Loan Association (TBLA) has been in existence since 1891, and is the longest standing financial institution in the country. The Association is a Building Society that provides affordable mortgage and credit financing for people to own, renovate or improve on their property.**