



The True Value of Cash

No where is cash more valuable than when it is used as a down payment for a home. “We’ve seen some homebuyers struggle, and sometimes fail, to come up with enough cash, typically 20% of a home’s purchase price,” says Jerry Frate, president of Rochester Area Mortgage Services, Inc. “But that doesn’t have to be.”

Gaining in popularity is a financing concept known as 80-10-10 (also, 80-15-5) that enables homebuyers to meet a 20% down payment even if they don’t have that much cash available.

With an 80-10-10 program, homebuyers come up with a 10% cash down payment. They obtain an additional 10% through a smaller secondary loan – which together amount to a 20% down payment, and no need for private mortgage insurance.

Homebuyers who borrow more than 80% of the home’s purchase price are more likely to default, which is why lenders require an extra measure of protection, satisfied by private mortgage insurance. “Unlike interest, PMI is not tax deductible,” says Frate.

In effect, the homeowner using an 80-10-10 has two mortgages – a standard mortgage for most (80%) of the value of the house, and a much smaller one, “and the interest on each is tax deductible,” says Frate.

The key questions: Will the cost of this secondary though small mortgage be less (or more) than the cost of PMI? Will it alter one’s credit rating or other profiles? Should a homebuyer wait (i.e., continue to rent) and save some more money for the downpayment? This is not a simple equation. Among the many factors to consider: current vs. future income, tax bracket, future plans to stay in the house, other expenses and obligations, and the purchase price of the house.

“Homebuyers in this situation should explore these possibilities,” says Frate.

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