DOWN PAYMENT STRATEGY BUYER DECISION GUIDE

Should I Put 20% Down?

Twenty percent down is not a requirement - it's a threshold that removes private mortgage insurance on a conventional loan and strengthens your offer. Conventional loans start at 3% down, FHA at 3.5%, and VA and USDA can go to 0% for eligible borrowers. Putting down less means paying mortgage insurance, but that cost is often smaller and more temporary than buyers assume, and tying up an extra 15%-17% of the purchase price in your house has a real opportunity cost of its own. The right down payment is the one that lets you close comfortably, keep a cash reserve, and still hit your other financial goals - not a round number you saw in a headline.

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Key facts at a glance

CONVENTIONAL MINIMUM
3% down - For qualified first-time buyers on most loan types.

FHA MINIMUM
3.5% down - Requires a 580+ credit score for the lowest minimum.

PMI AUTO-CANCELS
At 78% LTV - By law, based on the original amortization schedule.

YOU CAN REQUEST CANCELLATION
At 80% LTV - In writing, once you meet payment history requirements.

The one-minute answer

Twenty percent down is not a requirement - it's a threshold that removes private mortgage insurance on a conventional loan and strengthens your offer. Conventional loans start at 3% down, FHA at 3.5%, and VA and USDA can go to 0% for eligible borrowers. Putting down less means paying mortgage insurance, but that cost is often smaller and more temporary than buyers assume, and tying up an extra 15%-17% of the purchase price in your house has a real opportunity cost of its own. The right down payment is the one that lets you close comfortably, keep a cash reserve, and still hit your other financial goals - not a round number you saw in a headline.

Buy now if:

You have 20% plus closing costs plus a healthy reserve sitting in savings, you're not raiding retirement or an emergency fund to get there, and you're not chasing a maximum-priced house you can barely afford at a lower down payment anyway.

Wait if:

Reaching 20% would take years, drain your emergency fund, or push you into a much smaller or older home than a lower down payment would allow - in which case a 3%, 3.5%, or 0%-down program likely gets you into ownership sooner without meaningfully worse math.

Consider an alternative if:

You have some cash but not 20%. Down payment assistance, a piggyback second loan, or lender-paid mortgage insurance can shrink or eliminate the monthly mortgage insurance cost without you having to save an extra five figures first.

WHERE THE NUMBER CAME FROM

The 20%-down rule isn't a rule

> BRIAN MIX, NMLS #111175
> Twenty percent isn't the price of admission to homeownership. It's the price of skipping mortgage insurance. Those are two very different decisions.

Ask most people why you're supposed to put 20% down and the answer is some version of "that's just what you do." It isn't a law, and it isn't a lender requirement on most loan types. It's a legacy number from an era when down payment options were narrower, and it stuck around because it's an easy round figure to repeat.

Here's what 20% actually is: the line at which a conventional lender no longer requires private mortgage insurance (PMI) to protect itself against the extra risk of a smaller down payment. Below 20% down, most conventional loans carry PMI. At or above it, they don't. That's the whole mechanism - not a minimum for qualifying, not a signal of financial maturity, just an insurance threshold.

Conventional loans have allowed as little as 3% down for qualified first-time buyers for years under Fannie Mae Selling Guide and Freddie Mac guidelines. FHA loans, insured by HUD, go to 3.5% down with a 580 or higher credit score. VA loans for eligible service members and USDA loans in eligible rural areas can go to 0% down. See FHA vs. conventional for first-time buyers for a full side-by-side.

So the real question isn't "do I need 20%?" It's: does avoiding mortgage insurance save me more than tying up that extra cash costs me? That's a math question with a specific answer for your situation, not a rule of thumb. Run your numbers in the affordability calculator and the mortgage payment calculator before you decide anything.

The rest of this guide walks through both sides of that math.

> FAST
> 20% down removes mortgage insurance on a conventional loan. It does not remove property taxes, homeowners insurance, or your obligation to make the payment. Don't confuse "no PMI" with "cheap payment."

THE REAL BENEFITS

What 20% down actually gets you

Putting 20% down isn't nothing - it buys three concrete things, and it's worth being precise about what they are.

1. No private mortgage insurance

On a conventional loan, PMI protects the lender, not you, against the risk of a smaller down payment. It typically runs about 0.3%-1.5% of the loan amount per year, split into your monthly payment, depending on your credit score, loan-to-value ratio, and loan term. At 20% down, that cost disappears entirely from day one.

2. A smaller loan amount

More cash down means less borrowed, which means less interest paid over the life of the loan and a lower monthly principal-and-interest payment, all else equal. This is real and durable - it's the one benefit that doesn't depend on program details or timing.

3. A stronger offer in competitive markets
Sellers and listing agents read a bigger down payment as a lower-risk buyer - more cushion if the appraisal comes in low, less chance financing falls through. In a multiple-offer situation, a larger down payment can be a genuine edge, separate from the mortgage insurance math.

What it does *not* buy
- A better interest rate by itself. Rate is driven mainly by credit score, loan type, and loan-to-value tier, not just by crossing the 20% line.
- Automatic approval. You still have to meet debt-to-income and credit requirements regardless of down payment size.
- Immunity from market swings. Home values can still fall temporarily even with 20% equity on day one.

The honest accounting: 20% down buys you no PMI, a smaller loan, and a modest negotiating edge. It does not buy you a fundamentally different mortgage or guaranteed better terms across the board.

> TIP
> If you're deciding between 15% and 20% down, run both scenarios through the payment calculator including estimated PMI. The gap is often smaller than people expect - sometimes $60-$150 a month, not a dealbreaker for most budgets.

THE INSURANCE YOU'RE AVOIDING

The real cost of PMI - and how to cancel it

Private mortgage insurance gets a bad reputation partly because buyers assume it's permanent. It isn't, and federal law says so.

Under the Homeowners Protection Act (HPA), PMI on most conventional loans has two built-in exit points tied to your loan-to-value (LTV) ratio - the percentage of the home's value you still owe:

- Automatic termination at 78% LTV. Your servicer is required to automatically cancel PMI once your balance drops to 78% of the home's original value, based on the original amortization schedule, as long as you're current on payments. You don't have to ask.
- Borrower-requested cancellation at 80% LTV. You can request cancellation in writing once you reach 80% LTV, provided you have a good payment history and meet any lender conditions, such as no second liens on the property.

Both thresholds are measured against the home's original value in most cases, meaning normal principal paydown gets you there - you don't need an appraisal to hit the automatic 78% cutoff. If your home's value has risen significantly, some lenders will let you request cancellation earlier based on a new appraisal, though this isn't guaranteed and usually comes with a fee.

What PMI typically costs. For a conventional loan, annual PMI commonly runs 0.3%-1.5% of the loan amount, depending on your credit score and down payment size - lower scores and smaller down payments push the rate up. On a $320,000 loan, that's roughly $80-$400 a month, though most well-qualified borrowers land in the lower half of that range.

FHA is different - and important to know before you compare. FHA loans carry their own mortgage insurance premium (MIP) rather than PMI, and it does not follow the same cancellation rules. On most FHA loans made with less than 10% down, MIP stays for the life of the loan; the only way to remove it is to refinance into a conventional loan once you have enough equity. That's a meaningful factor in FHA vs. conventional decisions.

The bottom line: on a conventional loan, mortgage insurance is a temporary, shrinking cost with a legal expiration date - not a permanent tax for buying with less than 20% down.

> WATCH
> Track your loan balance against your home's original value. If you hit 80% and your servicer hasn't proactively mentioned cancellation, request it in writing yourself - the automatic rule kicks in at 78%, but nothing stops you from asking two points earlier.

THE OTHER SIDE OF THE MATH

The opportunity cost of a bigger down payment

Every dollar you put into a down payment is a dollar that isn't doing anything else - it isn't in your emergency fund, it isn't invested, and it isn't available if something goes wrong six months after closing.

Getting from 5% down to 20% down on a $350,000 home means finding roughly an extra $52,500. For most buyers, that's not pocket change sitting around - it's money that would otherwise take years to save, or that would come out of a 401(k), an emergency fund, or a gift that could have covered closing costs instead.

Questions worth asking before you chase 20%:

- How long would it take to save the difference? If reaching 20% means renting for three more years while rents rise, the rent vs. buy calculator can show whether that trade actually pays off compared to buying sooner at 10% or 15% down.
- What happens to your reserves? Closing with 20% down and zero cash left over is a worse financial position than closing with 10% down and six months of payments in the bank. Lenders and consumer advocates both flag "house poor" outcomes as one of the most common sources of buyer regret.
- What's the money doing now? If that cash is earning meaningful returns elsewhere, or if it's earmarked for something else - a business, a second property, a retirement contribution - moving it all into a down payment has a real cost even if PMI disappears.

- Are you buying a smaller, older, or farther-out house just to hit 20%? Some buyers stretch their timeline or shrink their target home purely to avoid mortgage insurance, then end up with a house that doesn't fit their needs for years. That trade rarely makes sense once you actually run the PMI cost against the wait.

None of this means a bigger down payment is a bad idea - for many buyers it is the right call. It means 20% shouldn't be treated as free just because it avoids a line-item cost. It has its own price, paid in liquidity and time.

> LOCAL
> State and local down payment assistance programs can bridge part of this gap without draining your savings. See what's available for your situation in the down payment assistance tool and the state guides.

THE MENU

3% conventional vs. 3.5% FHA vs. 0% VA/USDA

Down payment minimums vary by loan program, and the right one for you depends on your credit, your eligibility, and how long you plan to keep the loan.

3% down - conventional
Available to qualified first-time buyers (and some repeat buyers with income limits, depending on the program) through Fannie Mae and Freddie Mac. Requires PMI, which cancels under the HPA rules covered above. Generally rewards stronger credit with better pricing on both the rate and the PMI cost, so it can be a strong option for buyers with good-to-excellent credit and limited cash.

3.5% down - FHA
Insured by HUD, with more flexible credit requirements - a 580 score qualifies for the 3.5% minimum, and scores as low as 500 may qualify with 10% down. FHA is often more forgiving on debt-to-income ratios and past credit issues. The tradeoff is FHA's mortgage insurance premium (MIP), which on most loans doesn't cancel automatically and typically requires a refinance to remove.

0% down - VA and USDA
VA loans, guaranteed by the Department of Veterans Affairs, are available to eligible service members, veterans, and some surviving spouses, with no down payment required and no monthly mortgage insurance (though most borrowers pay a one-time VA funding fee). USDA loans, backed by the U.S. Department of Agriculture, offer 0% down for eligible buyers in eligible rural and some suburban areas, with income limits and a guarantee fee in place of traditional PMI.

How to choose
- Strong credit, tight cash, plan to stay a while: 3% conventional often wins on total cost once PMI cancels.
- Credit challenges or higher debt-to-income: FHA's flexibility can outweigh its stickier mortgage insurance.
- Eligible for VA or USDA: These usually beat both, since eliminating the down payment barrier without the ongoing cost of PMI is hard to match - check eligibility before assuming you don't qualify.

Run your own numbers with the affordability calculator and see the full breakdown in FHA vs. conventional for first-time buyers.

> FAST
> Eligibility, not preference, should usually drive this choice first. If you qualify for VA or USDA, it's worth checking before comparing PMI costs on conventional or FHA - the 0%-down programs are frequently the strongest overall deal for eligible buyers.

ALTERNATIVES TO WRITING A BIGGER CHECK

Lender-paid mortgage insurance and single-premium options

Standard monthly PMI isn't the only way mortgage insurance can be structured, and knowing the alternatives can change how you think about your down payment.

Lender-paid mortgage insurance (LPMI)
Instead of you paying a monthly PMI premium, the lender covers the insurance cost and builds it into a slightly higher interest rate on the whole loan. There's no separate PMI line item on your payment, which can help with debt-to-income qualifying since it's baked into the rate rather than itemized. The tradeoff: unlike standard PMI, LPMI doesn't go away when you hit 78%-80% LTV - because it's part of your rate, removing it means refinancing.

Single-premium (upfront) mortgage insurance
Some lenders offer the option to pay the entire mortgage insurance premium as a one-time cost at closing instead of monthly. This can lower your monthly payment meaningfully and may be worth it if you have the cash but not quite enough for 20%, or if a relative is contributing a gift toward closing costs. It's a bet that you'll keep the loan long enough to make the upfront cost worthwhile - running before a couple of years generally doesn't pay off.

Split-premium mortgage insurance
A hybrid: part of the premium is paid upfront, part continues monthly, resulting in a lower ongoing PMI cost than the standard structure. This can be a middle ground for buyers who have some extra cash at closing but not a large reserve.

Piggyback (80-10-10) loans
A structure where you put 10% down, take a first mortgage for 80% of the price, and a second mortgage (often a home equity loan or line) for the remaining 10%. Because the first mortgage sits at 80% LTV, it avoids PMI entirely. The second loan usually carries a higher rate, so this only makes sense when the combined cost beats standard PMI - worth comparing carefully with a loan officer rather than assuming it's automatically cheaper.

Each of these shifts *when* and *how* you pay for reduced-down-payment risk, rather than eliminating the tradeoff. The right structure depends on how long you'll keep the loan, how much cash you have on hand, and whether you expect to refinance.

> TIP
> Ask your loan officer to quote monthly PMI, LPMI, and single-premium side by side for your exact scenario. The best option is rarely obvious without seeing all three numbers next to each other.

THE HONEST ANSWER

When 20% down genuinely is the right call

None of this is an argument against 20% down - it's an argument against treating it as mandatory. There are situations where it's clearly the smart move:

- You already have the cash without touching your emergency fund or retirement savings. If 20% is sitting there and pulling it doesn't create a liquidity problem, avoiding PMI is close to free money.
- You're buying in a market where jumbo loan limits make PMI unavailable or expensive. Some jumbo programs require larger down payments regardless, or price mortgage insurance less favorably than conforming loans.
- You plan to keep the loan a long time. The longer you hold the mortgage, the more total PMI you'd otherwise pay, which tips the math further toward a bigger down payment.
- You want the lowest possible monthly payment and the cash isn't needed elsewhere. If there's no competing use for the money and no timeline pressure to buy sooner, 20% down produces the smallest ongoing housing cost.
- You're trying to win a competitive offer situation where a larger down payment signals lower risk to a seller comparing multiple bids.

What 20% down should never be is a barrier that delays a ready buyer by years, drains a safety net, or forces a compromise on the type of home that actually fits your life. If you're unsure where you land, the Readiness Score walks through your full file - credit, debt, cash, and stability - and shows what your options look like at several down payment levels, not just the round number everyone assumes is required.

> WATCH
> Don't let 'avoiding PMI' become the only decision-making factor. A comfortable payment, adequate reserves, and the right home for your needs matter more than a single insurance line item that's designed to shrink and eventually disappear anyway.

Your options, compared

Put 20% down

Avoid mortgage insurance entirely and minimize your loan amount from day one.

Pros

- No PMI from the start - nothing to track or request cancellation on
- Smaller loan amount lowers total interest paid over the life of the loan
- Can strengthen your offer in competitive, multiple-offer situations
- Lower monthly payment than an equivalent loan with mortgage insurance added

Cons

- Ties up a large amount of cash that could serve as emergency reserves
- Can take years longer to save, delaying homeownership
- Opportunity cost if that money would otherwise be invested or used elsewhere
- No PMI benefit if you were going to hit the 78% cancellation threshold within a few years anyway

Best for: Buyers with ample cash beyond their emergency fund who plan to keep the loan long-term.

Avoid if: Reaching 20% would require draining savings, delaying the purchase for years, or settling for a home that doesn't fit your needs.

3%-5% down, conventional with PMI

Buy sooner with a smaller upfront investment and temporary mortgage insurance.

Pros

- Gets you into a home years sooner in many cases
- PMI is temporary and cancels automatically at 78% LTV under federal law
- Preserves cash for reserves, moving costs, and repairs
- Rewards good credit with lower PMI pricing

Cons

- Monthly payment includes a PMI line item until cancellation
- Larger loan amount means more interest paid over time
- Slightly weaker negotiating position in competitive offer situations

Best for: Buyers with solid credit and stable income who don't want to wait years to save an extra 15%-17% of the price.

Avoid if: The PMI-inclusive payment doesn't comfortably fit your budget even with a modest reserve.

3.5% down, FHA

Use FHA's flexible credit standards to qualify with less-than-perfect credit.

Pros

- Qualifies with credit scores as low as 580 at this down payment level
- More flexible debt-to-income guidelines than many conventional programs
- Widely available regardless of first-time buyer status

Cons

- Mortgage insurance premium (MIP) typically lasts for the life of the loan on most FHA loans under 10% down
- Removing MIP usually requires refinancing into a conventional loan later
- Upfront MIP is added to the loan at closing

Best for: Buyers with lower credit scores, higher debt-to-income ratios, or thinner credit files.

Avoid if: Your credit already qualifies you for competitive conventional pricing - FHA's permanent MIP can cost more long-term.

0% down, VA or USDA

Skip the down payment entirely if you're eligible.

Pros

- No down payment required for eligible borrowers and properties
- No monthly mortgage insurance - replaced by a funding or guarantee fee
- Frees up cash for reserves, moving, and repairs

Cons

- VA requires eligible military service; USDA requires eligible rural/suburban location and income limits
- Financing 100% of the price means more total interest over the loan term
- Funding/guarantee fees add to the loan amount or closing costs

Best for: Eligible veterans, service members, and buyers in USDA-eligible areas who want to preserve cash without paying ongoing mortgage insurance.

Avoid if: You don't meet eligibility requirements, or the property doesn't qualify under USDA's location rules.

Decision tree

1. Do you have 20% down plus closing costs plus a cash reserve, without touching your emergency fund?

If yes, 20% down is a low-risk way to avoid PMI entirely - proceed with confidence.

Verdict: Yes put 20% down

2. Would reaching 20% take more than 12-18 months of additional saving?

Rising rents and possible price appreciation during that wait often outweigh the PMI you'd avoid. Run the numbers in the rent vs. buy calculator.

Verdict: Yes consider buying sooner with less down

3. Are you eligible for VA or USDA financing?

These programs offer 0% down without ongoing monthly mortgage insurance, which is hard to beat on total cost for eligible buyers.

Verdict: Yes explore VA/USDA before anything else

4. Is your credit score 620 or higher?

Stronger credit typically makes 3%-5% down conventional financing with PMI more competitively priced than FHA.

Verdict: Yes look at conventional with PMI first

5. Is your credit score in the 500s-low 600s, or is your debt-to-income ratio elevated?

FHA's more flexible standards at 3.5% down may be the most realistic path, even with permanent mortgage insurance until a future refinance.

Verdict: Below 620 or high DTI consider FHA

6. Do you plan to keep this loan for more than 7-10 years?

Longer hold periods increase the total PMI you'd pay if you go with a smaller down payment, tipping the math slightly toward putting more down if the cash is available.

Verdict: Long hold weigh a larger down payment

7. Would a smaller down payment let you buy a home that better fits your actual needs?

If chasing 20% means settling for a smaller, older, or farther home, the mortgage insurance cost is often the cheaper tradeoff.

Verdict: Yes buy with less down now

Cost examples

Maria - $350,000 home, 5% vs. 20% down

Illustrative example, not a quote. Maria is deciding between putting 5% down now or waiting roughly three years to reach 20% while renting.

	5% down now	20% down in ~3 years
Down payment	$17,500	$70,000
Loan amount	$332,500	$280,000
Estimated PMI (until cancellation)	~$140/month	$0
Estimated principal & interest	~$2,100/month	~$1,770/month
Rent paid while waiting	$0	~$72,000 (3 yrs at $2,000/mo)
Cash remaining after closing	~$10,000 reserve kept	Emergency fund largely depleted to reach 20%

> TAKEAWAY
> Waiting three years to hit 20% costs roughly $72,000 in rent while PMI on the 5%-down option runs a few thousand dollars total before it cancels. The math often favors buying sooner - but every household's rent, price target, and savings rate differ, so run your own scenario in the affordability and rent vs. buy calculators.

James - comparing PMI structures on a $300,000 loan

Illustrative example, not a quote. James is putting 10% down on a $300,000 loan and comparing standard monthly PMI against lender-paid PMI and a single upfront premium.

	Standard monthly PMI	Lender-paid PMI (LPMI)
Down payment	$30,000	$30,000
Interest rate	Base rate	~0.25%-0.5% higher
Monthly PMI line item	~$110/month	$0 (built into rate)
Cancels at 78%-80% LTV	Yes, automatically or on request	No - requires refinance to remove

Best if you plan to sell/refinance soon	Neutral	Can be cheaper short-term
Best if you'll keep the loan 10+ years	Usually cheaper long-term	Costs more over time since it never cancels

TAKEAWAY

LPMI can lower the payment slightly in the short run, but because it's baked into the rate, it never cancels the way standard PMI does. For buyers planning to stay in the home long-term, standard PMI that terminates under the Homeowners Protection Act is usually the better deal.

Timeline

Decide your down payment target

Run the affordability and payment calculators with 5%, 10%, and 20% scenarios before shopping.

Get pre-approved

Ask your loan officer to quote PMI, LPMI, and single-premium options side by side for your exact numbers.

Shop and go under contract

Factor closing costs (2%-5% of price) into your total cash-to-close, not just the down payment.

Close and start tracking your loan-to-value

Note your original loan amount and home value so you can calculate when you'll hit 80% and 78% LTV.

Request cancellation at 80% LTV

Submit a written request to your servicer once you qualify, rather than waiting for the automatic 78% termination.

Confirm automatic termination at 78% LTV

By law your servicer must cancel PMI at this point if you're current on payments - verify it happened on your statement.

Common mistakes

Assuming 20% down is required to get a mortgage

Conventional loans allow 3% down, FHA allows 3.5%, and VA/USDA allow 0% for eligible borrowers. Twenty percent only removes PMI - it isn't a qualifying minimum.

Draining the emergency fund to hit 20%

Closing with zero reserves left is a common source of first-year homeowner distress, especially when an unexpected repair hits within months of moving in.

Forgetting FHA's mortgage insurance doesn't cancel the same way

Most FHA loans under 10% down carry MIP for the life of the loan. Comparing FHA's monthly cost to conventional PMI without accounting for this timeline difference skews the decision.

Not tracking loan-to-value after closing

Automatic PMI termination at 78% LTV depends on your servicer's records matching your amortization schedule. Keep your own copy of the original loan amount and value to verify it happens.

Ignoring lender-paid PMI's lack of a cancellation date

LPMI can lower the payment initially but never cancels on its own since it's built into the rate - refinancing is the only way to remove it.

Waiting years for 20% while rent keeps rising

The cost of additional years of rent often exceeds the PMI that would have been paid on a smaller down payment - run the comparison before assuming waiting is free.

Overlooking down payment assistance programs

Some buyers assume they don't qualify without checking; many programs cover income levels and price points wider than expected.

Comparing PMI structures using only the sticker rate

LPMI's cost is hidden in a higher interest rate over the whole loan term, not itemized - compare total cost over your expected hold period, not just the monthly line item.

Choosing a smaller or less suitable home just to reach 20%

Stretching the timeline or compromising on the home to avoid mortgage insurance often costs more in lost time and fit than the insurance itself.

Expert tips

- Ask your loan officer to run your PMI quote at multiple credit score tiers - a 20-point improvement can meaningfully lower the monthly cost even at the same down payment.
- If you're close to 20% but not quite there, ask about a piggyback second loan versus standard PMI - sometimes the blended cost is lower, sometimes it isn't, and it's worth comparing directly.
- Keep a copy of your original loan documents so you can independently verify your servicer applies automatic PMI termination at 78% LTV correctly.
- If a seller offers a concession, consider directing it toward a temporary rate buydown or closing costs instead of stretching to increase your down payment.
- Before assuming you need to reach 20%, check both state-level and local down payment assistance - some programs are designed specifically to reduce or eliminate the need for a large down payment.
- Get single-premium and split-premium mortgage insurance quotes if you have some upfront cash but not the full 20% - they can lower your monthly payment more than people expect.

Decision checklist

- [ ] Run your target purchase price through the affordability calculator at 5%, 10%, and 20% down
- [ ] Confirm your credit score, since it affects PMI pricing at every down payment level
- [ ] Check VA and USDA eligibility before assuming you need a down payment at all
- [ ] Estimate closing costs separately from your down payment - they're not the same expense
- [ ] Decide how much cash reserve you want left in the bank after closing
- [ ] Ask your loan officer to quote standard PMI, LPMI, and single-premium options side by side
- [ ] Compare FHA's permanent MIP against conventional PMI's cancellation timeline for your situation
- [ ] Check state and local down payment assistance eligibility before ruling out a lower down payment
- [ ] Calculate your debt-to-income ratio at each down payment scenario
- [ ] Confirm your original loan amount and home value in writing so you can track LTV over time

Frequently asked questions

Do I really need 20% down to buy a house?

No. Conventional loans allow as little as 3% down for qualified first-time buyers, FHA allows 3.5%, and VA and USDA loans can go to 0% down for eligible borrowers. Twenty percent is only the threshold at which conventional loans no longer require private mortgage insurance.

What is PMI and why do I have to pay it?

Private mortgage insurance protects the lender, not you, against the added risk of a smaller down payment on a conventional loan. It typically costs 0.3%-1.5% of the loan amount per year and cancels once you build enough equity.

How do I get rid of PMI?

Under the Homeowners Protection Act, your servicer must automatically cancel PMI once your loan balance reaches 78% of the home's original value, as long as you're current on payments. You can also request cancellation in writing once you reach 80% LTV, subject to your lender's payment history requirements.

Does FHA mortgage insurance cancel like PMI does?

Usually not. On most FHA loans made with less than 10% down, the mortgage insurance premium (MIP) lasts for the life of the loan. The typical way to remove it is to refinance into a conventional loan once you have enough equity.

Is it better to put more money down or invest the difference?

It depends on your other financial goals, how long you'll keep the loan, and your comfort with liquidity. There's no universal answer - run your specific numbers, including PMI cost and how long it will last, before deciding.

What's the difference between PMI and lender-paid mortgage insurance?

Standard PMI is a separate monthly charge that cancels once you reach 78%-80% loan-to-value. Lender-paid mortgage insurance (LPMI) is built into a slightly higher interest rate for the whole loan and does not cancel on its own - removing it requires a refinance.

Can I avoid PMI without putting 20% down?

Yes, in some cases. Options include a piggyback (80-10-10) loan structure, lender-paid PMI built into the rate, VA or USDA financing if you're eligible, or a single upfront mortgage insurance premium paid at closing instead of monthly.

How much does PMI actually cost per month?

It varies with your credit score, down payment size, and loan term, but commonly runs 0.3%-1.5% of the loan amount annually. On a $300,000 loan, that's roughly $75-$375 a month, with most well-qualified borrowers on the lower end.

Will a bigger down payment get me a lower interest rate?

It can help somewhat, since down payment size is one factor in loan-to-value pricing tiers, but credit score and loan type typically matter more. Crossing exactly 20% isn't a guaranteed rate discount by itself - it mainly removes the PMI cost.

Should I use my down payment assistance instead of saving for 20%?

For many buyers, yes - down payment assistance can get you into a home years sooner without draining your reserves. Compare the total cost, including any repayment terms on the assistance, against the extra years of rent you'd pay waiting to reach 20%.

Is it a bad idea to put 3% or 5% down?

Not inherently. As long as the payment, including PMI, fits your budget and you keep a reasonable reserve, a smaller down payment with temporary PMI is a common and reasonable path - especially since PMI on conventional loans is legally required to cancel.

What happens to my down payment if home values drop after I buy?

A smaller down payment gives you less equity cushion, so a value drop could put you closer to owing more than the home is worth. This is one reason lenders price PMI based on loan-to-value, and it's worth weighing against your expected time in the home.

Can I remove PMI early if my home's value goes up?

Some lenders allow early cancellation based on a new appraisal showing you've reached 80% loan-to-value ahead of schedule, though this typically isn't guaranteed and may involve an appraisal fee. Ask your servicer about their specific policy.

Does putting 20% down help me win a bidding war?

It can. Sellers sometimes view a larger down payment as a sign of a lower-risk buyer with more cushion if the appraisal comes in low, which can help in competitive multiple-offer situations, though it's rarely the deciding factor by itself.

Sources

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Homeowners Protection Act - PMI automatic termination at 78% LTV and borrower-requested cancellation at 80% LTV - www.consumerfinance.gov/

CFPB - Consumer guidance on mortgage insurance, loan-to-value, and cancellation rights - www.consumerfinance.gov/

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