# Zillow's New Program to Help Homebuyers with Lower Down Payments Misses the Mark

August 29, 2023 - In a bid to make homeownership more attainable, Zillow, a prominent online real estate company, has introduced a novel initiative to ease the path for potential homebuyers. The company has launched a program that allows buyers to put down as little as 1% for a down payment, significantly reducing the financial hurdle to enter the housing market.

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The program's mechanics are straightforward: Initially, this opportunity is available to buyers eyeing properties in Arizona. However, Zillow has outlined its intention to extend this initiative to other markets in the future. Although specific details regarding the timing and locations of expansion remain undisclosed, Zillow's commitment to broadening the program is apparent.

According to Zillow, this program holds the potential to decrease the down payment requirement to just 1%, a change the company claims will expedite the journey to homeownership for eligible buyers who are prepared to take on a mortgage. To sweeten the deal, Zillow has pledged an additional 2% contribution upon closing.

For certain individuals, this program could dramatically expedite their ability to save for a down payment. For instance, Zillow presented a scenario in which a buyer earning 80% of the median income in their area and putting aside 5% of their income would only need to save for 11 months to afford a down payment on a $275,000 home in Phoenix. In contrast, opting for a 3% down payment would demand two and a half years of savings.

Zillow emphasized that this initiative addresses a prevalent challenge in numerous markets, where affordability is dwindling and the accumulation of a sufficient down payment remains an obstacle for aspiring homebuyers. This predicament is particularly pronounced for individuals who have been allocating substantial sums to rent payments.

The confluence of escalating home prices and rising interest rates has resulted in over 60% of first-time buyers being unable to muster a down payment exceeding 20%. Strikingly, a quarter of these first-time buyers are making do with a mere 5% or even less.

Although Zillow's 1% offer might seem attractive for prospective homeowners seeking to make their first purchase, it's important to note that there are trade-offs to consider. Since a lower down payment translates to a higher loan amount, borrowers will inevitably incur more significant interest costs over the loan's lifespan. Moreover, this approach necessitates larger monthly payments to retire the loan.

Another significant downside to opting for such minimal down payments is that it increases the risk of negative equity â€“ a situation where the outstanding mortgage balance exceeds the current value of the home. This could lead to financial challenges if property values decline after the home purchase, particularly if only a 1% down payment was initially made. Low or no down payment loans were a significant contributing factor to the housing market implosion in 2008.

While Zillow's goal to make home ownership more affordable is laudable, this effort really doesn't accomplish that. From a monthly payment standpoint, it will actually increase the monthly payments that new homeowners need to make and, in our opinion, increases the risk of foreclosure to buyers by making home ownership less affordable over the life of the loan.
by Jim Malmberg
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