

# HOW MUCH CASH DO I NEED TO BUY A HOME?

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For most people, buying a home is both an exciting and challenging venture—it is the quintessential American dream. This fact sheet will provide general information on the costs involved and the types of expenditures you will need to save for in order to buy your first home.

## THE DOWN PAYMENT

The down payment will be the most significant outlay of your pre-purchase costs. The rule used to be that you needed to put down 20% of the purchase price, and you would obtain an 80% mortgage. Today, homebuyers can buy a home with as little as 3% to 5% down. If you do put less than 20% down, you will probably have to purchase private mortgage insurance (often referred to as PMI), which will cost you between .5% to 1% of the loan amount until you owe 80% or less of the value of your home. Keep in mind that the more you put down, the less your mortgage payment will be.

## “GOOD FAITH” DEPOSIT

A “good faith” deposit is money that is presented along with your offer, which proves to the seller that you are serious about wanting to buy the home. Your real estate broker will deposit the money into an escrow account, and if your offer is accepted, it will be applied towards the down payment. If the offer is rejected, it will be returned to you. Typically, the “good faith” deposit will be about two percent of the price of the home.

## CLOSING COSTS

Closing costs include all fees required to execute the sale transaction, such as attorney fees, title insurance, appraisals, points, and tax escrows. Typically, these fees are paid up front. The average cost is 3% to 5% of the purchase price.

## POST-PURCHASE RESERVE FUNDS

You may also need to prove to the lender that you have some reserve funds to protect against potential cash flow problems. This not only is assurance for the mortgage holder, but is also for your peace of mind. Post-purchase reserve funds should be at least two to three months' worth of housing payments. This money is recommended



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to be in a savings account and accessible without penalties for early withdrawal (though money in a retirement account can also be counted toward the reserve requirement).

## **COST BREAKDOWN**

So how much money will you need to come up with to buy a home? The actual figure depends on many factors. You may have to save more or less for the same home depending on current interest rates, whether you get a fixed or an adjustable rate mortgage, repayment terms, and your credit rating. Other expenditures you may want to save for are landscaping, immediate repairs, redecorating, furnishings (particularly if you are moving into a much larger space), and moving expenses.

A First Home Concierge can help you estimate the costs for your situation. Go to [ardentcu.org/firsthome](https://ardentcu.org/firsthome) to get started.