How Much Cash Does It Take To Buy A Home?

The amount of cash required to purchase a home will vary by transaction and the type of financing selected. There are two components relating to the cash requirements to purchase a home:

1. Down Payment
2. Closing Costs

Down Payment

The amount of down payment and the source of the down payment will be dictated by the loan program requirements.

1. **VA Loans** – VA loans have the least down payment requirement. For most VA loans there is no down payment requirement. If there is a down payment on a VA loan it can come from the buyer or a gift from a family member. In addition, the buyer may obtain a gift from a family member or a Lender Credit to pay for all or part of the closing costs.
2. **FHA Loans** – FHA loans require only a 3.50% down payment unless a buyer's credit score is below 580. The down payment on an FHA loan can come from the buyer or a gift from a family member. In addition, the buyer may obtain a gift from a family member or a Lender Credit to pay for all or part of the closing costs.
3. **Conventional Loans** – The minimum down payment on a conventional loan currently is 5.00%. The higher the down payment on a conventional loan, the lower the interest rate and/or costs of acquiring the loan. There are some restrictions on where the down payment and other cash can come from on a conventional loan transaction. The buyer may obtain a gift from a family member for down payment in a conventional loan transaction, but *the buyer must first have 5.00% of his/her own money to put into the transaction*. In addition, the buyer may obtain a gift from a family member or a Lender Credit to pay for all or part of the closing costs.

Closing Costs

There are two different types of closing costs in a buyer's real estate transaction:

1. **Non-Recurring Costs** – The costs that are paid one time only at the close of the transaction.
2. **Recurring Costs** – The costs that the borrower will bear not only at closing, but as long as the loan is outstanding. These include things such as interest, taxes and insurance.

Non-Recurring Costs

a. *Loan Origination Fee* – A fee the lender or broker may charge directly to the borrower for arranging the loan.
b. *Lender Fees* – These run by many names such as Underwriting Fee, Document Fee, Processing Fee, Warehouse Fee, etc.
c. *Appraisal Fee* – The cost of obtaining an appraisal on the property.
d. *Credit Report Fee* – The cost of obtaining a credit report on the borrower(s)
e. *Escrow Fee* – The cost of having the escrow company (a neutral third party) handle the funds and documents for the transaction.
f. *Lender's Title Insurance* – The cost of providing a title insurance policy to the lender that insures that the loan is in the proper lien position (i.e., 1st lien, 2nd lien, etc.
g. *Notary Fee* – The cost of obtaining the services of a Notary.
h. *County Recording Fees* – The cost of recording the final loan documents.

Recurring Costs

a. *Interest Proration* – The prorated interest charge from the date of closing to the end of the month.
b. *Homeowner's Insurance* – The first year's homeowner's insurance policy must be paid in full at closing.
c. *Impound (Escrow) Account Funding* – The initial amount required to fund an account for property taxes and homeowner's insurance that is to be included in a borrower's monthly payment.

Lender Credit

Lender Credits may be available to pay for closing costs in a transaction. A Lender Credit arises when the borrower agrees to take a higher than market interest rate on their loan.

For example, if the basic rate available today is 4.00% for a loan, and the buyer agrees to take a 4.25% interest rate, the lender would be able to credit the borrower an amount for their closing costs. The amount of the credit depends on the type of loan and the current market pricing.

Other Transaction Costs That May Be Paid By The Buyer

While most of the costs of purchasing a home typically revolve around the amount of down payment and loan-related closing costs, there are other costs that a typical buyer may pay in a transaction, such as:

1. *Property Inspection Fee* – While an appraiser will go to the home and appraise the value of the property as collateral for your loan, the appraiser typically will not provide an in-depth inspection of the property to make sure that all the systems are running properly. Hiring a Property Inspector is highly encouraged. A

Property Inspector will inspect, review and test all the systems and components of the home and make sure they are functioning correctly.

2. *Home Warranty Fee* – A Home Warranty is usually a one-year contract with a company that will provide service calls for many of the appliances and systems in your new home. These service calls are by qualified technicians, however, there is a deductible you will have to pay. The Home Warranty can cover things such as the roof, kitchen appliances, plumbing and electrical systems, the heater and air conditioner as well as pool equipment. The Home Warranty cost is usually negotiated between the buyer and the seller.

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