

## Crunch Your Cash Numbers Before Starting the Home Buying Process

| By: Michele Lerner |



To start the home buying process, you need to establish a pattern of fiscal responsibility and develop a budget—and you also need to figure out where you will get the cash you need to move from renter to owner.

While you may be hoping to find a [zero down-payment loan](#) and a seller who is willing to pay your [closing costs](#), the reality is that most consumers need at least some cash to buy a house.

### Home Buying Cash Needs

While renters typically need a security deposit and their first month's rent, home buying requires cash for several purposes, such as the following:

**Earnest money deposit:** Your offer for a home should be accompanied by an [earnest money deposit](#) to show the seller you are serious about buying their home. The amount of your deposit will vary according to the size of your down payment, local market customs, the value of the home you are buying and market conditions.

Consult a REALTOR® for advice on how much your deposit should be, but if you plan on making a down payment of 3.5% to 5% you should plan for a deposit of at least 1%, or \$2,000 on a \$200,000 home.

**Down payment:** Generally, buyers need to make a down payment of at least 3.5% for a government-insured Federal Housing Administration loan—and at least 5% or 10% for a conventional loan. Some loan programs allow some or all of your down payment to be a gift, but many require that at least 5% or more comes from your own funds.

If you plan to [ask relatives](#) for money to help you, it's important to start that process early so you know exactly how much they can provide. You don't want to assume you are getting the full down payment of \$40,000 on a \$200,000 home—and then discover your parents plan to give you only \$2,500.

**Closing costs:** [Closing costs](#) vary by your location and your loan program, but you should plan to budget 3% to 6% of your home value for these costs.

**Cash reserves:** Some loan programs require you to have two or three months' worth of mortgage payments in the bank as your emergency fund. Even if you are not required to have that

amount, you should have an emergency fund to cover at least three to six months—or more—of expenses even after you have completed the home buying process.

**Moving costs:** Whether you are moving locally or long distance, you will need funds to [pay for the move](#) and the associated expenses of settling into a new home.

While you probably can't come up with an exact figure this early in the home buying process, you should be able to develop a general estimate of your cash needs based on an idea of your price range for a home. For example, on a \$200,000 purchase you would need a bare minimum of \$16,000:

- \$2,000 for a 1% deposit

- \$5,000 for the remaining 2.5% of your 3.5% down payment

- \$6,000 for 3% closing costs

- \$3,000 for a bare-bones emergency fund to cover approximately three months of mortgage payments

## Identify Your Sources for Cash

If you don't have the funds you need in a savings account now, you should identify ways you can accumulate the money you need, like these:

- Getting a second job or working extra hours. Dedicating all the income from a short-term side job can boost your savings quickly.

- Drastically cutting your spending for a few months or longer.

- Finding out the rules about borrowing from your 401(k) or IRA account.

- Asking family members if they can help you with gift funds.

Check out your options for local and state homeownership programs at [www.downpaymentresource.com](http://www.downpaymentresource.com), where you can search by location for down payment assistance and low down payment loans.

If you're really dedicated to home buying, you will likely come up with other creative ways of finding the cash you need to become a homeowner.