



# ***Home-Buying Process***

## ***Down Payment and Closing Costs***

# Home-Buying Process: Down Payment and Closing Costs

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One of the most common questions buyers ask real estate professionals and loan officers is, “How much money will I need?” The answer to that question depends on the loan closing costs and how much of a down payment you make or the percentage of the house financed (also known as Loan-To-Value (LTV)).

The down payment is the difference between the cost of the house and the amount financed. The amount depends on the type of finance program available to best meet your needs. Different people look for different options. Some make a higher down payment to keep their mortgage payment lower while others may not have the money available for larger down payments.

Closing costs vary depending on the type of loan and services provided. For these examples, the closing costs have been estimated at \$2,400. For more information on loan closing costs refer to the Good Faith Estimate sub-section in The Mortgage Process section of this module.

*Example 1.* If you decide to purchase a \$100,000 house and you qualify for a first-time homebuyer program that allows you to finance 100 percent of the house, your payment may only consist of the fees associated with processing your loan. In this scenario, using the information provided you would only pay the loan closing costs estimated at \$2,400.

*Example 2.* If you are purchasing a \$100,000 house and you finance 98 percent, your down payment is determined by taking 2 percent of the house

cost. The total amount needed at closing would be the down payment plus estimated closing costs (\$2,400).

$$\$100,000 \times 98\% = \$2,000 \quad (\text{down payment})$$

$$\$2,000 + \$2,400 = \$4,400 \quad (\text{total})$$

*Example 3.* If you are purchasing a \$100,000 house and you finance 80 percent, your down payment is determined by taking 20 percent of the loan amount. The total amount needed at closing would be the down payment plus estimated closing costs.

$$\$100,000 \times 20\% = \$20,000 \quad (\text{down payment})$$

$$\$20,000 + \$2,400 = \$22,400 \quad (\text{total})$$

These examples were simplified for educational purposes. In many situations, if you were to put more money down to reduce the percentage of the house financed, closing costs could change and you could pay a lower interest rate or fewer points.

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## Home Buying Process: Down Payment and Closing Costs

*This resource is one in a series on the Home-Buying Process which include:*

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