

## What You Need To Budget for When Buying a Home



When it comes to [buying a home](#), it can feel a bit intimidating to know how much you need to save and where to find that information. But you should know, you're not expected to have all the answers yourself. There are many trusted professionals who can help you understand your finances and what you'll need to budget for throughout the process.

To get you started, here are a few things experts say you should plan for along the way.

### 1. Down Payment

As you set your savings goal for your purchase, your [down payment](#) is likely already top of mind. And, like many other people, you may believe you need to set aside [20%](#) of the home's purchase price for that down payment – but that's not always the case. The *National Association of Realtors* (NAR) [says](#):

***“One of the biggest misconceptions among housing consumers is what the typical down payment is and what amount is needed to enter homeownership. Having this knowledge is critical to know what to save . . .”***

The good news is, you may be able to put as little as 3.5% (or even 0%) down in some situations. To understand your options, partner with a trusted professional who can go over the various loan types, down payment [assistance programs](#), and what each one requires.

## **2. Earnest Money Deposit**

Another item you may want to plan for is an earnest money deposit. While it isn't required, it's common in today's [highly competitive](#) market because it can help your offer stand out in a bidding war.

So, what is it? It's money you pay as a show of good faith when you make an offer on a house. This deposit works like a credit. You're using some of the money you already saved for your purchase to show the seller you're committed and serious about their house. It's not an added expense, it's just paying some of that up front. *First American* [explains](#) what it is and how it works:

***“The deposit made from the buyer to the seller when submitting an offer. This deposit is typically held in trust by a third party and is intended to show the seller you are serious about purchasing their home. Upon closing the money will generally be applied to your down payment or closing costs.”***

In other words, an earnest money deposit could be the very first check you'll write toward your purchase. The amount varies by state and situation. *Realtor.com* [elaborates](#):

***“The amount you’ll deposit as earnest money will depend on factors such as policies and limitations in your state, the current market, what your real estate agent recommends, and what the seller requires. On average, however, you can expect to hand over 1% to 2% of the total home purchase price.”***

Work with a real estate advisor to understand any requirements in your local area and what they've recommended for other buyers in your market. They'll help you determine if it's something that could be a useful option for you.

### **3. Closing Costs**

The next thing to plan for is your [closing costs](#). The *Federal Trade Commission* (FTC) [defines](#) closing costs as:

***“The upfront fees charged in connection with a mortgage loan transaction. ...generally including, but not limited to a loan origination fee, title examination and insurance, survey, attorney’s fee, and prepaid items, such as escrow deposits for taxes and insurance.”***

Basically, your closing costs cover the fees for various people and services involved in your transaction. NAR has this to [say](#) about how much to budget for:

*“A home costs more than just the sale price. For example, closing costs—which make up about 2% to 5% of the home’s purchase price—are a major added expense...Lenders provide a Closing Disclosure at least three business days prior to closing on a mortgage. **But buyers will need to budget for these added costs ahead of time to avoid sticker shock days before closing.**”*

The key takeaway is savvy buyers plan ahead for these expenses so they can come into the process prepared. *Freddie Mac sums it up* like this:

*“If you’re in the market to buy a home, your down payment is probably top of mind. And rightly so – it’s likely the biggest cost of homebuying. **However, it is not the only cost** and it’s critical you understand all your expenses before diving in. **The more prepared you are for your down payment, closing and other costs, the smoother your homebuying journey will be.**”*

## **Bottom Line**

Knowing what to budget for in the homebuying process is essential. To make sure you understand these and any other expenses that may come up, let’s connect so you have reliable expertise on what to expect when you buy a home.