



Saving for a Home

Home buying can be both an exciting and stressful time for people. You can help eliminate some the stress by knowing what funds will be required of you. There are several expenses to save for when you are considering buying a home. These include the down payment, the closing costs and the reserve funds.

Down Payment

The largest cost associated with a home purchase is usually the down payment. In former days, borrowers were required to pay 20% down to get into a home. The down payment gives lenders more security that borrowers will be able to afford the mortgage. With rapidly rising home prices though, lenders have created several flexible loans for those with less than 20% for a down payment. You can even find programs today that require no down payment. Of course, you can never get something for nothing in this world. With no down payment, you'll have to pay more in other fees, so be careful. Even contributing a down payment as little as 3% can score you better interest rates and lower your loan costs.

Saving for your down payment may still take some time, depending on your income and desired housing area. Even a 3% down payment in some of the pricier regions of the country could be as much as \$9,000-15,000. If that number seems unattainable, consider asking for help from relatives. Over half of all first-time buyers receive gifts from relatives to help with down payments.

Closing Costs

You will also need to save up for the associated mortgage closing costs. These are all the fees required to process your loan. Examples are title insurance, appraisal fees, points, escrow and attorney fees. Typically, closing costs will run about a few thousand dollars. There are programs today where the lender or seller will pay these fees for you as part of the deal, but again, this will usually cost you in other areas of the sale or loan.

Reserve Funds

Lenders will also want to see that you have substantial savings left when the loan closes. Generally, you will be required to have three months' worth of mortgage payments in the bank. This will help ensure that you'll be able to pay your mortgage bills in the next little while even if you run into some unforeseen financial troubles, like unemployment. When saving for these reserve funds, keep in mind that you can count 401k or IRA retirement savings account balances as part of your funds.

Once you've calculated how much you'll have to pay upfront to buy a home, the next step is to assess your finances and create a budget. Subtract your monthly expenses from your monthly income to find out how much left over you'll be able to save. Saving for your first home loan will probably require some sacrifice on your part, but will net you great benefits and savings when the time comes to close your home loan!