Diversified Lending of Colorado

HOW MUCH MONEY DO I NEED TO BUY A HOME?

A practical guide to down payment, costs, and reserves

Presented by Jerry Volk

Your Mortgage Educator | Diversified Lending of Colorado

The answer is more than the down payment

Your total cash plan can include the down payment, closing costs, prepaid expenses, earnest money, inspection, appraisal, moving costs, and money you keep after closing.

Down payment	The part of the purchase price not financed.
Closing costs	Lender and third-party costs to obtain the loan and transfer ownership.
Prepaids/escrows	Interest, insurance, taxes, and initial escrow deposits.
Earnest money	A contract deposit generally credited toward your final cash requirement.
Before-closing costs	Inspection, appraisal, and other items may be paid before closing.
Reserves	Money remaining after closing for emergencies or program requirements.

Jerry's teaching point: The goal is not to bring every available dollar to closing. The goal is to buy with a sound payment and a safe cash cushion.

1. Start with the cash-to-close formula

A simple planning formula

Add	Down payment + closing costs + prepaids/escrows
Subtract	Earnest money already paid + eligible credits or assistance
Equals	Estimated cash-to-close
Plan separately	Inspection, moving, immediate repairs, furnishings, and emergency reserves

Closing cost planning range

The CFPB notes that closing costs typically range from about 2% to 5% of the purchase price, excluding the down payment. Actual costs depend on price, down payment, loan type, property, lender, location, taxes, insurance, and timing.

Important: A percentage range is a planning tool—not a quote. Use your Loan Estimate and transaction details for the real number.

2. Down payment choices

Path	Cash consideration
Conventional	Some eligible options allow as little as 3% down; mortgage insurance and pricing depend on the file.
FHA	As little as 3.5% down for eligible borrowers, with FHA mortgage insurance.
VA	VA generally does not require a down payment when entitlement and the transaction support it.
USDA	Can offer 100% financing for eligible households and properties.
Larger down payment	May reduce payment, loan amount, or mortgage insurance, but uses more available cash.

Possible sources of funds

- Borrower savings or investments.
- Eligible gifts from acceptable donors.
- Seller concessions negotiated in the contract.
- Lender credits tied to the chosen rate.
- Eligible down payment assistance.
- Proceeds from an approved asset sale.

Every source must meet documentation and program rules. Avoid unexplained cash deposits or last-minute transfers.

3. A hypothetical planning example

This example is for education only and is not a quote or recommendation.

Planning item	Illustrative amount
Purchase price	$400,000
5% down payment	$20,000
Illustrative 2%-5% closing-cost range	$8,000-$20,000
Less earnest money already paid	Example: $5,000 credit at closing
Plus separate early costs	Inspection, appraisal, and other transaction items
Keep after closing	Emergency, repair, moving, and ownership reserves

What the example teaches

- "5% down" does not mean the buyer needs only 5% in savings.
- Earnest money is usually part of the transaction cash—not an extra down payment.
- Credits can reduce cash due but may change price, rate, or negotiation terms.
- The strongest plan leaves money available after closing.

Your personal cash-planning checklist

Build your estimate

- Choose a target price range.
- Compare multiple down payment choices.
- Estimate closing costs and prepaids.
- Account for earnest money already paid.
- Include inspection, appraisal, moving, and immediate repair costs.
- Choose the minimum reserve you want to keep untouched.

Questions to ask

- What is my estimated cash-to-close?
- Which costs are lender charges versus third-party costs or prepaids?
- Do points or lender credits make sense?
- Can gifts, concessions, or assistance be used?
- What funds must be documented and for how long?
- How much should remain after closing?

Best next step: Request a personalized scenario using your price, loan option, taxes, insurance, cash, and goals.

Let's talk about your mortgage plan

You do not need to know which loan or strategy you want before calling. That is what the education and comparison process is for.

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Consumer resources

CFPB Down payment planning: https://www.consumerfinance.gov/owning-a-home/prepare/determine-your-down-payment/

CFPB Closing cost planning: https://www.consumerfinance.gov/owning-a-home/prepare/figure-out-how-much-you-want-to-spend/

HUD FHA information: https://www.hud.gov/helping-americans/loans

VA Home Loan Program: https://www.benefits.va.gov/homeloans/

Important information: This guide is for general educational purposes and is not a commitment to lend, a loan approval, legal advice, tax advice, or a quote of available terms. Programs, rates, fees, and eligibility requirements are subject to change and to borrower and property qualification. Equal Housing Opportunity.