



Closing and Up-Front Costs Explained

Closing Costs

Closing costs are separate from the down payment and usually range from \$6,000–\$8,000.

Down Payments

Down Payment Minimum Requirements

- Primary Residences
 - ◊ FHA: 3.5% of sales price
 - ◊ Conventional: 5% of sales price, 3% of sales price for first-time homebuyers
 - ◊ USDA: 0%* of sales price for eligible borrowers
 - ◊ VA: 0%** of sales price for eligible borrowers
- Second and Vacation Homes
 - ◊ Conventional: 10% of sales price
- Investment Properties
 - ◊ Conventional: 20% of sales price

Appraisals and Inspections

The appraisal is part of the buyer's closing costs; however, it is required that the buyer pay for the appraisal at the time of ordering it. This usually happens after the buyer is under contract on a home and usually costs around \$650.

Additionally, the buyer has the option to obtain a home and pest inspection. Those are not a requirement and, together, are about \$500 or more.

If the home has a well, septic tank, pool, fireplace or other amenities, there are other inspection options available as well. Sometimes a well or septic tank inspection is required for the loan. These are usually \$500 or more.

Due Diligence Deposit

This deposit is paid by the buyer directly to the seller in the form of a check. The purpose of this deposit is to take the home off the market while the buyer does their due diligence and makes the decision of whether or not they will buy the home. If the buyer decides not to buy, the seller keeps the money.

Earnest Money Deposit

This payment is made to an attorney and is held in escrow. It shows the seller how serious the buyer is about buying the property. Should the buyer back out of the deal and void the contract, this money is given to the seller.

If the buyer goes to closing and does not cancel the contract, both the due diligence and earnest money deposits are credited to the buyer's bottom line, meaning it comes off the amount the buyer owes at closing as a credit. Additionally, if the buyer's credit ends up being more than their closing costs, they could walk away with cash back.

There is no set amount on what these deposits should equal. However, depending on the market, the borrower may need their offer to stand out. This part of the transaction is more on the real estate side, so it's best to discuss with an agent.

Acceptable Sources of Funds for Deposits and Closing:

- Checking and savings accounts
- Gifts from family
- 401(k) loans or withdrawals
- Sale of personal assets, if documented properly
- Secured borrowed funds
- Upcoming payroll deposits before closing

Unacceptable Sources of Funds for Deposits and Closing:

- Cash – Any deposits of cash in the buyer's account in the last 60 days should be discussed with the buyer's agent.
- Unsecured funds like a title or personal loan



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