How Much Down Payment Do You Need for a House?

How much should you put down on a house?

What is the typical down payment for a house?

Consider that the median buyer puts down **just 13%**. This amount reduces to 8% for buyers under the age of 32, while some mortgage loan programs even allow for as little as 3% or no down payment at all.

Although putting down 20% to avoid mortgage insurance is wise if affordable, it's a myth that this is always necessary. In fact, most people opt for a much lower down payment. Choosing a smaller down payment over becoming "house poor" from a 20% down payment is often the better choice.

What is a down payment?

In real estate, a "**down payment"** is the amount of cash you pay upfront toward the purchase of a home. Down payments vary in size and are typically expressed as a percentage of the purchase price. For example, a 10% down payment on a $400,000 home is $40,000. Similarly, if you put $12,000 down on that same home, then your down payment would be 3%.

The term "down payment" exists because very few first-time home buyers opt to pay for homes using cash. Instead, many use a mortgage loan to finance the purchase of a home. An estimated 78% of all home buyers used a mortgage loan to buy a home, according to the **National Association of Realtors** 2023 Home Buyers and Sellers Generational Trends report.

Lenders require a down payment for most mortgage loans, but certain types of government-backed loan programs do not require buyers to put down any money at all.

Do you need to put 20% down on a house?

Contrary to what you may have heard, there is no requirement for a 20% down payment when purchasing a home. With a 20% down payment, lenders won't require mortgage insurance on a conventional loan.

You can, however, buy a house with a lower down payment. In fact, the National Association of Realtors **reported** in 2023 that the median down payment for first-time home buyers was 13%. The average down payment drops to 8-10% for buyers aged between 23 and 41

This shows that many buyers are able to purchase homes without putting down the full 20%.

Minimum down payment requirements

Depending on the type of mortgage program for which you're applying, there's going to be a specified minimum down payment amount. Understanding how much down payment for a house you need is key to choosing the best mortgage option for your financial situation.

This is especially true if you are looking to spend less money during the home buying process or considering refinancing in the future.

Remember, though, that these down payment requirements are just the minimum. As a mortgage borrower, it's your right to put down as much on a home as you like. In some cases, it can make sense to put down more than the minimum requirement.

Conventional loans

This type of loan typically requires a minimum down payment of 3% to 5% for first-time homebuyers. Some programs, such as **Fannie Mae's HomeReady** and **Freddie Mac's Home Possible**, are specifically designed for first-time buyers and require a 3% down payment.

Moreover, conventional loans come in two types: fixed-rate and adjustable-rate. **Fixed-rate loans** keep the same interest rate over the life of the loan, providing stability in monthly payments. **Adjustable-rate mortgages** (ARMs), however, have interest rates that can change, potentially offering lower initial rates but with the risk of increasing over time.

Conventional loans without PMI

For a **conventional loan** without private mortgage insurance (PMI), you typically need to make a down payment of 20% or more of the home's purchase price. Lenders generally require PMI when a borrower makes a down payment of less than 20%, as it protects the lender against the risk of default.

As you pay down the loan balance and your equity increases, reaching a certain level of equity will allow you to request the **cancellation of PMI**. Specifically, lenders are required to cancel PMI when the loan-to-value ratio (LTV) drops to 78%, indicating that you have gained sufficient equity in your home.

FHA loans

Insured by the Federal Housing Administration, **FHA loans** are popular among first-time home buyers due to their more lenient credit and income requirements.

- The minimum down payment for an FHA loan is 3.5% for borrowers with a credit score of 580 or higher.
- If the borrower's credit score falls between 500 and 579, the minimum down payment requirement is 10%.

FHA loans require mortgage insurance premiums (MIP) which are typically paid for the life of the loan. This added cost can be significant, leading many borrowers to consider refinancing to a conventional loan once they have enough equity to avoid MIP.

VA loans

Backed by the Department of Veterans Affairs, **VA loans** are available to eligible veterans, active-duty service members, and certain surviving spouses. This type of loan does not require a down payment, making it an attractive option for first-time homebuyers who qualify.

Additionally, unlike other loan types, VA loans do not require ongoing mortgage insurance. However, they do require a one-time **funding fee**, which is typically between 1.4% to 3.6% of the loan amount.

USDA loans

The U.S. Department of Agriculture (USDA) offers loans for eligible buyers in rural and suburban areas. **USDA loans** do not require a down payment, as long as the borrower meets income and eligibility requirements. These loans are ideal for buyers looking for a home in eligible rural areas and who prefer not to provide a large upfront payment.

Local first-time home buyer programs

Many states, counties, and cities offer first-time home buyer programs that provide down payment assistance or low-interest loans. These programs often have specific eligibility requirements, such as income limits or a requirement to attend homebuyer education classes.

Jumbo loans

Jumbo loans are mortgages that exceed the conforming loan limits set by the Federal Housing Finance Agency. Lenders frequently request larger down payments, usually at least 10%.

Second homes

A **secondary residence** is a property that you occupy in addition to your primary residence at certain times of the year. This could be a vacation home, a weekend getaway, or a property near work.

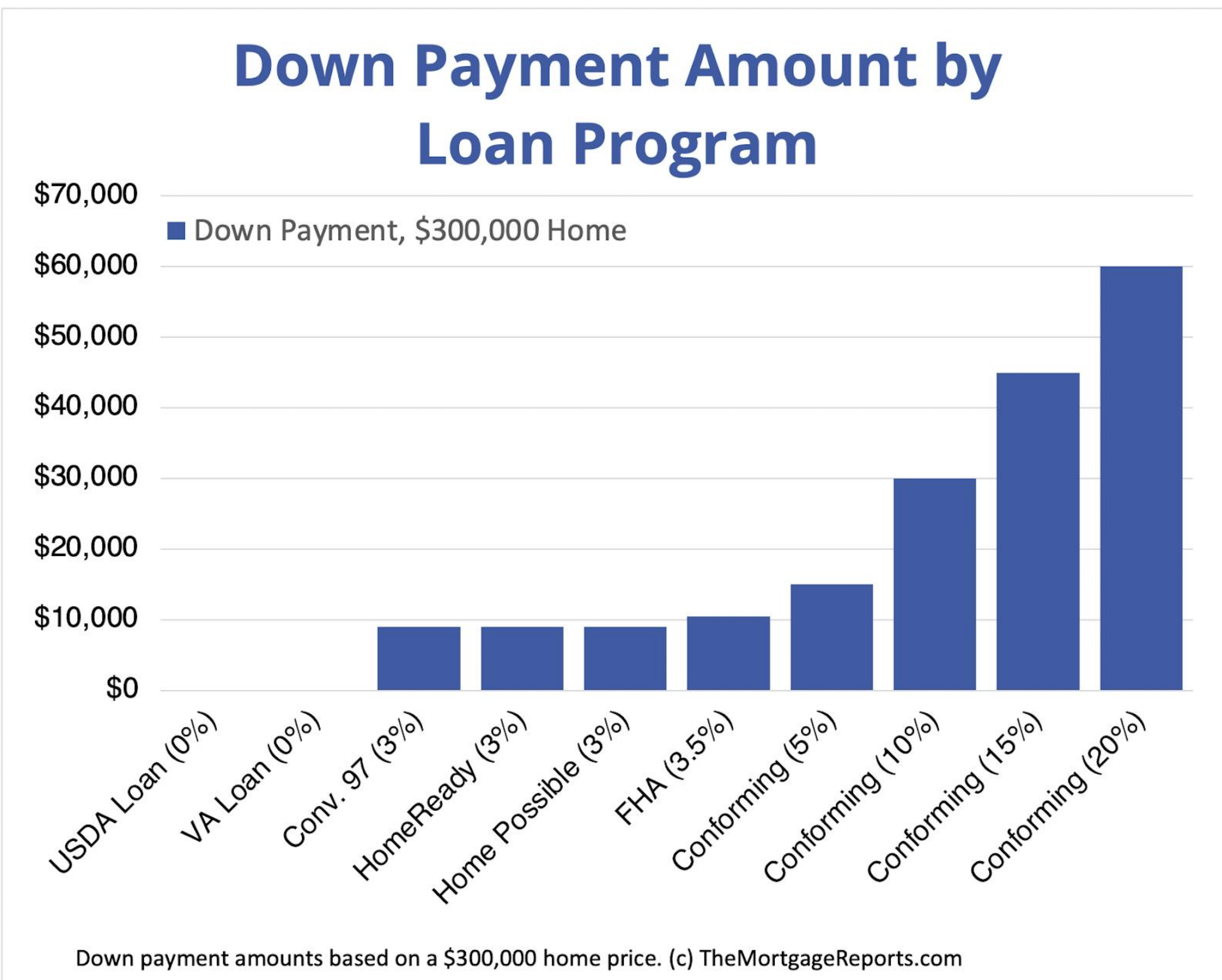
The minimum down payment for a second home is typically higher than for a primary residence, often around 10-20%. Lenders view these properties as higher risk because borrowers are more likely to default on a secondary home than their primary residence during financial hardship.

Investment properties

Investment properties are real estate purchased with the intention of earning a return, either through rental income, future resale, or both. Unlike a secondary residence, these properties are not used for personal enjoyment but are solely for generating income.

Minimum down payments for investment properties are usually higher compared to primary residences, typically 20% or more. This is due to the higher risk associated with rental properties.

Loan options for investment properties also differ, with interest rates and qualifying requirements often being stricter than those for primary or secondary homes.



Benefits of a larger down payment

It takes time to save enough money for a substantial down payment, so a zero- or low-down-payment loan may hasten your ability to buy a home. But there are benefits to making a large down payment.

Lower interest rates

Borrowers who put down more money typically receive better interest rates from lenders. This is due to the fact that a larger down payment lowers the lender's risk because the borrower has more equity in the home from the beginning.

Lower monthly mortgage payments

You'll be financing less of the home's purchase price if you put down a bigger down payment. As a result, your mortgage payments will be lower each month, which will make managing your monthly spending easier.

No mortgage insurance

You can avoid paying for private mortgage insurance (PMI) when you put 20% or more down on a conventional loan. When borrowers put down less than 20%, lenders typically require PMI as an additional cost. Over the course of your loan, eliminating PMI will save you a sizable sum of money.

More equity in the home

With a bigger down payment, you'll have more home equity right away. Home equity is the amount of your home that you own outright. Having more equity in your home gives you financial security and can help if you ever decide to sell or refinance it.

Lower debt-to-income ratio

If your DTI is lower, you may be able to borrow more money in the future. DTI is the percentage of your monthly income that goes toward debt repayment. You may be unable to obtain additional credit or loans if your debt-to-income ratio is too high. A DTI of 45% or less is what most mortgage lenders seek. If you plan to take on additional loans or buy a second home, borrowing less (by putting more down) may help keep your DTI manageable.

Competitive edge in a seller's market

A sizable down payment can improve your offer's appeal to sellers in a competitive housing market. This is because it indicates your financial stability and commitment to the purchase, increasing the likelihood of a smooth transaction.

Afford more home

A large down payment can help you afford more home with the same monthly income. Say a buyer wants to spend $1,000 monthly on a mortgage payment. Making a 20% down payment instead of 3% raises their home-buying budget by over $100,000, all while maintaining the same monthly payment.

Here's how much house the home buyer in this example can purchase with a 4% mortgage rate. The price of the home varies with the amount the buyer puts down.

Down Payment (%)	Down Payment ($)	Monthly Payment (Principal & Interest / PMI)	Home Price You Can Afford
3%	$4,640	$884 / $116	$154,500
5%	$8,780	$896 / $104	$175,500
10%	$91,310	$913 / $87	$193,000
20%	$52,370	$1,000 / $0	$261,500

Even though a bigger down payment can help you afford a larger home loan, by no means should home buyers tap their emergency funds to stretch their down payment level.

Benefits of a smaller down payment

As a homeowner, your home is likely to be your most valuable asset. The home's value may even be worth more than all your other investments put together.

In this way, your home is both a place to live and an investment. Once we start thinking of our house as an investment, it can help us make financial decisions.

What is the riskiest decision someone can make when purchasing a new home? For some, it's making too big of a down payment.

Buy a home sooner

A smaller down payment allows you to enter the housing market sooner, as you don't need to save as much money before purchasing a home. This can be especially helpful for first-time home buyers or those with limited financial resources. Lower upfront costs also mean you may be able to afford a larger or better-located property than if you had to save for a larger down payment.

Potential for property appreciation

Entering the housing market earlier by making a smaller down payment may allow you to benefit from property appreciation over time. As the value of your home increases, your equity in the property will grow, which can offset the higher interest costs associated with a smaller down payment.

Money left over for home improvements

Using all your savings for a down payment may not be helpful down the road. As a new homeowner, you may discover that you need more money than you anticipated for repairs and renovations. Putting this money aside in advance can make homeownership less stressful.

Flexibility in cash reserves

By making a smaller down payment, you can maintain an emergency fund and have more cash on hand for unexpected expenses. This provides a sense of financial security and helps you avoid taking on additional debt in case of unforeseen circumstances, such as job loss or medical emergencies.

Higher rate of return

One reason conservative homeowners should be careful about how much they put down is that doing so can reduce the property's ROI. Imagine that your home's value increases by the historical national average of 5% per year.

Today, your home is worth $400,000. In a year, it's worth $420,000. Regardless of your down payment, the home is worth $20,000 more.

That down payment will affect your rate of return.

- With 20% down on the home—$80,000—your rate of return is 25%
- With 3% down on the home—$12,000—your rate of return is 167%

That's a huge difference.

But we must also consider the higher mortgage rate plus the mandatory private mortgage insurance that accompanies a conventional 3%-down loan. Low-down-payment loans can cost more each month.

- Assuming a 175-basis point (1.75%) bump from rate and PMI combined, we find that a low-down-payment homeowner pays an extra $6,780 per year to live in their home
- With 3% down and making an adjustment for rate and PMI, the rate of return on a low-down-payment loan is *still* 105%

The less you put down, the larger your potential return on investment.

How much should you put down on a house?

If you can easily afford it, you should probably put 20% down on a house. You'll avoid paying for **private mortgage insurance**, and you'll have a lower loan amount and smaller monthly payments to worry about. You could save a lot of money in the long run.

But there's a catch. Not everyone can easily afford a 20% down, especially with home prices having risen at a record pace over the last few years. And the amount you put down will depend on multiple factors beyond just the sale price of your home.

If putting 20% down would drain your savings and make you "house poor," as some experts put it, then it might not be a good idea. In many cases, buyers are better off with a smaller down payment that leaves them money in the bank for emergencies, maintenance, and new-home costs like furniture and renovations.

Therefore, the amount you should put down on a house depends on your personal finances. It could be 20%. Or it could be 10%, 3%, or even **zero down**. So, explore all your options and find the right down payment amount for *you*.

Your real estate agent can help you decide on the size of your down payment by providing insights on local market trends. Their expertise and connections with mortgage brokers and lenders can guide you in making an informed decision.

Down payment assistance programs

Not everyone qualifies for a zero-down mortgage. Most borrowers need at least 3% down for a conventional mortgage or 3.5% down for an FHA loan. But what if you can't quite afford the minimum down payment?

Three percent down on a $300,000 home is still $9,000—a considerable amount of money.

Luckily, there are grants and loan programs that can help.

For example, every state has multiple **down payment assistance programs** (DPAs). These programs, often funded by state and local governments and nonprofits, offer money to make homeownership more accessible for lower-income or disadvantaged home buyers.

DPA funds can come in the form of a grant or loan, and the loans are often forgiven if you live in the home for a certain period. To find out whether you're eligible for assistance, ask your Realtor or lender to help you find and apply for programs in your area.

FAQ: How much down payment for a house do you need?

Do I have to put 20 percent down on a house?

You do not have to put 20 percent down on a house. In fact, the average down payment for first-time buyers is between eight and 13 percent. There are also loan programs that let you put as little as zero down. However, a smaller down payment means a more expensive mortgage over the long term. With less than 20 percent down on a house purchase, you will have a bigger loan and higher monthly payments. You'll likely also have to pay for mortgage insurance, which can be expensive.

What is the 20 percent down rule?

The 20 percent down rule is really a myth. Typically, mortgage lenders want you to put 20 percent down on a home purchase because it lowers their lending risk. It's also a rule that most programs charge mortgage insurance if you put less than 20 percent down (though some loans avoid this). But it's not a rule that you must put 20 percent down. Down payment options for major loan programs range from zero to three, five, or 10 percent.

Is it better to make a large down payment on a house?

It's not always better to make a large down payment on a house. When it comes to making a down payment, the choice should depend on your own financial goals. It's better to put 20 percent down if you want the lowest possible interest rate and monthly payment. But if you want to get into a house now and start building equity, it may be better to buy with a smaller down payment—say five to 10 percent down. You might also want to make a small down payment to avoid draining your savings. Remember, you can always refinance to a lower rate with no mortgage insurance later down the road.

How can I avoid PMI without 20 percent down?

It's possible to avoid PMI with less than 20 percent down. If you want to avoid paying mortgage insurance premiums, look for lender-paid mortgage insurance, a piggyback loan, or a bank with special no-PMI loans. But remember, there's no free lunch. To avoid PMI, you'll likely have to pay a higher interest rate. And many banks with no-PMI loans have special qualifications, like being a first-time or low-income home buyer.

What are the benefits of putting 20 percent down on a house?

The biggest benefits of putting 20 percent down on a house are a smaller loan size, lower monthly payments, and no mortgage insurance. For example, imagine you're buying a house worth $300,000 at a four percent interest rate. With 20 percent down and no mortgage insurance, your monthly principal and interest payment comes out to $1,150. With 10 percent down and mortgage insurance included, payments jump to $1,450 per month. Here, putting 20 percent down instead of 10 saves you $300 per month.

Is it OK to put 10 percent down on a house?

It is okay to put 10 percent down on a house. In fact, first-time buyers put down only 13 percent on average. Just note that with 10 percent down, you'll have a higher monthly payment than if you put 20 percent down. For example, a $300,000 home with a four percent mortgage rate would cost about $1,450 per month with 10 percent down and just $1,150 per month with 20 percent down.

Do you have to pay PMI with 10 percent down?

The biggest drawback to putting 10 percent down is that you'll likely have to pay mortgage insurance. Though if you use an FHA loan, a 10 percent or higher down payment shortens your mortgage insurance term to 11 years instead of the full loan term. Or you can put just 10% down and avoid mortgage insurance with a piggyback loan, which is a second, smaller loan that acts as part of your down payment.

Bottom line: How much down payment for a house do you need?

Discovering how much down payment for a house you require can be a revelation for many first-time home buyers. It's often surprising to learn that you can afford a home with the savings you currently have.

Furthermore, if your funds are insufficient for the down payment and closing costs, **down payment assistance programs** may be available to you. Therefore, it's important not to delay your home buying plans simply because you haven't saved up a 20% down payment.

In fact, many potential buyers have the qualifications to purchase a home right now without realizing it.