

# Is a Bigger Down Payment Always Better?

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When you're buying something major with a loan, namely a house, you likely need a down payment. A down payment covers part of the purchase price.

Should you Make a Large Down Payment?



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Your down payment plays a role in whether you are approved for a mortgage at all. Down payments also impact your interest rate and the borrowing costs throughout the life of your loan.

Your down payment usually comes from your savings. The down payment should be a percentage of the total purchase price, and then you pay off the rest of the loan by making installment payments.

If you're buying a house for \$200,000 and want to make a 20% down payment, it's \$40,000. You would pay that when you close on your home loan. Then, you're actually only borrowing \$160,000.

There are arguments to be made both for and against making the biggest down payment possible. There are also pros and cons of a larger down payment.

## **The Pros of a Bigger Down Payment**

If you save the cash and want to make a bigger down payment, one big benefit is reducing how much you're borrowing. When you have a smaller loan, you're going to pay less in total interest over the life of your loan.

You'll also get lower payments each month.

You can use a loan calculator to see how much a larger down payment has the potential to affect your payments.

With a bigger down payment, you may qualify for lower interest rates. A lender likes a bigger down payment because they're taking less risk on you. If you default on your loan, they see that they'll be able to get more of their money back.

If you can manage to make a down payment of at least 20%, you can avoid paying private mortgage insurance.

Since down payments that are larger mean a smaller monthly payment, you'll have less stress in this area.

There are opportunities to borrow against assets such as your home. The home is an asset that serves as collateral. The larger your down payment is, the sooner you build equity in your home. Then, you can borrow against that equity.

## **Why Would You Make a Smaller Down Payment?**

While there's a significant upside to maxing out how much you put down on a home, it's not always the right situation. We tend to see a bigger down payment as always being better. In reality, it depends.

One reason to go with a smaller down payment is that it can take a long time to save that much cash. You may not want to wait so long to buy a house.

Even if you do save enough money for a large down payment, it can create stress to think about putting the money into a house. If you were to face an unexpected situation and had less of an emergency reserve, it could create problems.

Another reason a lower down payment could make sense for you is if you want to make any repairs or potential upgrades to the home after you buy it.

Most lenders will set a minimum down payment required, and you can always pay more than that.

Down payments will show a lender you're serious and that you're putting yourself on the line as far as taking a risk but think about your personal financial situation before you decide.

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