

Preparing for a Home Purchase & Down Payment

Buying your first home is not only a major life milestone, but it's also a big financial goal to meet. Before jumping in, make sure you're educated and prepared.

What's the Cost of Home Ownership?

Keep in mind that the cost of your home goes well beyond the down payment. Other items to factor in include:

- Down Payment
- Mortgage Origination Fees
- Closing Costs
- Principal & Interest
- Homeowner's Insurance
- Property Taxes
- Utilities (Gas, Electric, Water)
- Home Owner's Association
- Renovations
- Maintenance (Interior and Exterior)
- Repairs

How to Determine If You're Financially Ready to Buy a Home

Owning your own place is fantastic -- if you're financially ready to do so. Here's a quick checklist to help you determine if you have your financial ducks in a row and could feasibly manage that home purchase:

- Your other financial goals are on track.** This means you've established retirement accounts and are contributing to them regularly. In addition, you have little to no consumer debt or a solid handle on it.
- You have a full emergency fund.** The general rule of thumb says you need three to six months' worth of expenses.
- Your credit score is good or excellent.** You'll need great credit in order to be approved for a home and secure a low interest rate. This is crucial; with something as big as a home mortgage, your interest rate can easily cost you an additional hundred thousand dollars over the lifetime of the loan.
- Calculated costs don't exceed 25% of your budget.** You've added up how much a home would cost you on a monthly basis, and the total doesn't equal more than about 25% of your current budget.

If you've got these areas covered, the next step is to answer a few questions about your personal situation. If you're not there, set SMART goals for yourself and look for new ways to increase your savings and your income.

Questions to Ask Before the Hunt

Once your finances are in order, you need to ask yourself the following questions before house hunting:

- Do we know where we'd like to live for the next 5 years?** Buying and selling a property within five years is typically a losing proposition. The home hasn't had enough time to increase in value.
- Do we have job security?** It's difficult to say you're 100% certain your position at work isn't going anywhere -- but if your work is highly unstable, that might be a red flag. Don't get into a home you can only afford if you always make your current income or more.
- Do we have a down payment?** You need to have an appropriate amount of cash available to put down on any property you want to buy.

You should have at least 20% of the home's purchase price saved for the down payment. Any less and you'll likely be paying PMI, which is private mortgage insurance, and it's designed to protect the lender in case the borrower defaults on their loan.

How to Start Saving Up for a Down Payment

If you've made it to the point of saving for a down payment, you know that 20% of a home's purchase price is a big number. If you're ready to start building your first home fund, try one of these strategies for saving up a home down payment:

- Establish a special savings fund:** This is a big goal you're working toward, and it deserves its own savings account. Look for a savings account at a credit union or online bank that offers at least 1% of interest.
- Slash unnecessary expenses and save instead of spend:** Are you currently enjoying any little luxuries that you don't really need? Maybe you're paying \$100 (or more) for a nice gym membership -- but there's a bare bones gym down the road that works just as well and only charges \$20 per month. Or maybe you've been enjoying trips to your local Whole Foods, when you could save by making the switch to the Kroger down the street.
- Look for little swaps like these:** Swap expensive habits for cheaper alternatives, such as dining out to lunch instead of dinner, working out at home instead of at the gym, etc. Track new habits to determine extra funds on hand and transfer those savings to your home down payment fund.
- Create a budget and make room for savings:** If you don't already use one, establish a budget that includes your monthly down payment savings and stick to it each month. This makes it easy for you to track -- and cut -- discretionary expenses so you can save more.
- Hang on to extra money:** Whenever you receive extra cash, make it a rule to put 80% into your savings and spend 20%.
- Find ways to increase your income:** If you want to pick up the pace on saving, look into working overtime, negotiating a raise, or establish your own side hustle and earn extra money in your spare time, outside of your day job.

Preparing for a Home Down Payment

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