

8 Easy Ways to Save for a Down Payment



Coldwell Banker Bain

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If saving for a down payment is the biggest hurdle you have to clear, here are eight easy tips to help get you on the road to house hunting sooner.

No doubt about it, coming up with the down payment for a house, especially for first timers, is tough. Whether you're considering a conventional mortgage with a 20% down payment (for a \$200,000 house that's \$40,000) or a Federal Housing Administration (FHA) loan with just 3.5% down (that's \$7,000 for a \$200,000 home), socking away that much cash could take years.

But don't despair. People buy houses every day so if they can do it, you can too. Use these eight simple strategies to make saving for your down payment easier than you think.

1 Figure out how much you need. Even though you won't know exactly what your down payment will be until you find a property, you can estimate the amount by knowing how much house you can comfortably afford and the average home prices in your area. If you're looking to buy a house or condo in the \$200,000 range, for example, you know you'll need to save between \$7,000 and \$40,000.

2 Open a dedicated savings account. Set up an account that's specifically for your down payment nest egg. Make sure these funds are working for you; parking money in a savings account earning 1% won't get you the keys to your dream house anytime soon. Instead, look for high-yield savings or money market accounts, or consider a CD. Then make saving effortless by having a regular withdrawal from your paycheck go directly, automatically into your down payment account.

3 Reduce your housing expenses. It's hard to save for a house if rent eats a good chunk of your money. But leases come to an end and when yours does consider negotiating a lower rent if you've been a good tenant. Or consider moving to a smaller or cheaper apartment and socking away your savings. Other options: get a roommate and share the cost of renting, or move back home with mom and dad (if all parties are willing!).

4 Economize. Take stock of your other monthly expenses to see where you can save money. Check the rates on your car, health and renter's insurance as well as your

cable TV, internet and cell phone plans – you may be able to save a bundle by making even small changes. Put away your credit cards in favor of cash purchases, as research shows you'll spend less. Clip coupons to save at the grocery store, then cook more at home and eat out less. Other options: Consider selling your car and pocketing the savings on gas and parking if public transportation or car pooling are options. Cut back on new clothes and shoes, your daily coffee habit, gym membership, or vacations while you're reaching for your goal. Saving shouldn't hurt, so only employ the methods that are right for you.

5 Earn extra money. If you can put in extra hours, pick up a part-time job or let your boss know that you're open to work overtime. Alternately, use your 9-to-5 skills to land freelance work outside the office. Other options: Clear out the clutter and stash cash at the same time by selling items you no longer need at a garage sale, online or through a consignment shop. Or consider doing odd jobs such as housecleaning, lawn care, or pet- or baby-sitting to boost your income.

6 Tap your retirement accounts. As a first-time home buyer, you can take up to \$10,000 from your IRA and avoid the 10% early-withdrawal fee. (Find out more at irs.gov.) Similarly, you can borrow from your 401(k) account without tax or penalty. Or, if you're contributing more to your 401(k) than your employer matches, scale back your contribution for a couple years and put that extra cash into your down payment fund.

7 Get a gift. You can receive up to \$13,000 tax-free from a single donor each year. So if Mom and Dad or your friends and other relatives want to give you cash toward a down payment, take it. In most cases, however, they'll have to write a letter stating that the money is indeed a gift. But it'll be yours, for free.

8 Check out home buyer programs. Counties, states and the federal government all have programs to help people who want to buy a house. Check with the Federal Housing Administration, Veteran's Administration and state housing authorities to see which programs you qualify for. Some programs offer housing discounts, while others provide down payment loans and grants. Many also require home-buyer classes, especially for first-time home buyers.

