HOW TO SAVE FOR A DOWN PAYMENT

Saving for a down payment isn't like saving for retirement. You don't have decades to watch compounding interest work. You need money now, as fast as possible.

Well, when it comes to buying a home, fast is relative. You'd like it now, but maybe six months from now is OK, or a year from now. **If you follow these 6 principles** for saving for a down payment, you'll find the money does add up, and before you know it, you'll be in a home of your own:

STEP 1: FIGURE OUT HOW MUCH YOU NEED TO SAVE.

It helps to have a target. If you know you'll need $12,000, you can work backwards to see how much money you need to put

Emily Smith, REALTOR® Gregory Realty 903-530-
emily@gregoryrealtors.com www.smith.realtor

away each month to reach that $12,000 goal. You'll also feel more motivated by seeing your account march closer to the target each month.

But how do you know you'll need $12,000? Or any amount?

To figure out how much money you need for a down payment, you need to discover how much money the bank will give you for a mortgage, based on your income and credit score. The down payment is the difference between what the bank will loan you, and what the house costs.

For example, if the house costs $300,000, and the bank will loan you $280,000, then your down payment will be $20,000. ($300,000 - $280,000 = $20,000)

Many people, especially first time home buyers, come at it from the other end. They first look at how much money they can come up with for a down payment, then tack that onto what the bank will give them. That's the price of home they can afford. For example, if you can imagine coming up with $10,000 for a down payment, based on your savings patterns and other factors, and the bank will loan you $280,000, then your house price is $290,000. ($280,000 + $10,000 = $290,000)

So step one, or at least early in your process, work with a lender or mortgage broker to determine what amount of loan you can get from the bank. Then set a goal for a down payment. After talking with the lender, you may discover you need less--or more--than you thought you did.

STEP 2: DECIDE WHEN YOU WANT TO BUY.

If you need $12,000, and you want to buy in one year, then you need to save an average of $1,000/month. If you plan to buy in three years, then you need to save $400/month.

Of course, this may be driven more by what you can save than by when you want to buy. If you can only manage to save $400/month, and you need $24,000, then you won't be in a position to buy for five years.

But take heart!

THERE ARE OTHER WAYS TO GET SOME DOWN PAYMENT MONEY BESIDES SAVING FOR IT MONTH AFTER MONTH. **TALK TO ME** ABOUT SPECIAL HOME BUYER PROGRAMS THAT HELP WITH DOWN PAYMENT ASSISTANCE. THERE ALSO MAY BE LOW-DOWN PAYMENT LOANS AVAILABLE. GET THE FACTS BEFORE THROWING YOUR HANDS UP!

STEP 3: DECIDE WHERE THE MONEY IS COMING FROM. EASIER SAID, THAN DONE, RIGHT?

On a monthly basis, can you reduce your car payment by $100/mo? Can you eliminate cable tv and save $60/mo? Can you cut out $100 worth of entertainment a month? Can you get a second job and make and extra $1,000/month? Can you buy and sell things online and make an extra $500/month?

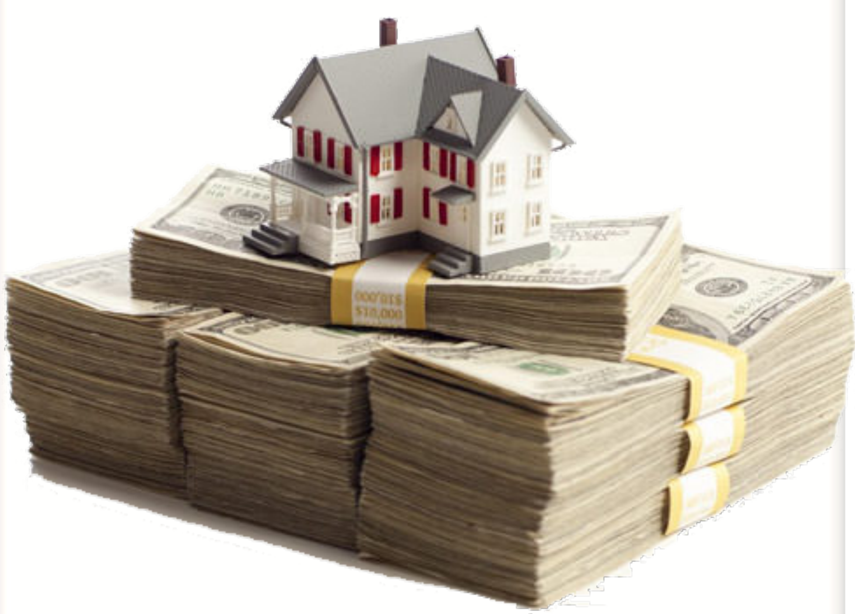
Is there a possibility of getting a lump sum? Do you get an annual bonus at work? Do you usually have some cash coming back from taxes? Will your rich Aunt Sally be able to give you a chunk of money? Plan ahead and see how much these things will close the gap and get you closer to your target.

It'll be hard work and there will be sacrifices of time and luxuries. But keep your goal in mind, and remember why you're buying this house...to create stability, to provide for your future, and to have something to call your own.

STEP 4: HERE'S WHERE THE RUBBER MEETS THE ROAD: SET UP AN AUTOMATIC SAVINGS SYSTEM.

Up to now, it's all been about the planning. Now you need to make the savings really happen. Once you decide you need to save an extra $1,000/month, and you have identified where it's going to come from, create a system to make it happen.

You can ask your workplace to withdraw more from each paycheck and perhaps they'll even deposit money into separate savings accounts for you. You can electronically move money into savings on each pay day yourself. If you're working an extra



job, have all that money go to a separate account. If you've reduced your car payment by $100, your tv bill by $60, and your entertainment by $80, then put $240 into savings the first of each month. You don't want to have to think about it. Just make it routine.

But don't neglect your emergency fund either. You may discover that to create an emergency fund, which is typically six months' worth of income, you need to postpone your plans for buying a house until you have enough cash reserves built up.

STEP 5. PAY OFF CREDIT CARDS AND ROLL THE PAYMENT OVER.

If you have three credit cards, start paying extra on the one with the least left owing. Once you pay that card off, take the entire payment you were making on that card and apply it to the card with the next lowest balance. Keep doing that until your cards are paid off. Don't close the cards, but pay them off. Once they're paid off, add up all the money you were paying each month on those cards and put it into your savings. Don't go buy anything more on credit for a good long while.

STEP 6. REWARD YOURSELF ALONG THE WAY.

Don't go buy something! Instead, create a chart, like a thermometer, with your target at one end. Then color in the money amount you save each month and watch it get closer to your target. Look for extra ways to add more to your thermometer each month. It sounds corny, but it really works to help keep you motivated!

CONCLUSION

Don’t let down payment money stop you from owning a house. Even if it can’t happen right away, that’s no reason not to plan for it down the road. And who knows…it may be able to happen right away.

CONTACT ME TO TALK ABOUT SPECIAL DOWN PAYMENT ASSISTANCE AND LOW DOWN PAYMENT LOAN POSSIBILITIES. EITHER I CAN ANSWER YOUR QUESTIONS, OR I’LL INTRODUCE YOU TO SOMEONE WITH EVEN MORE SPECIALIZED KNOWLEDGE.

Emily Smith, REALTOR® Gregory Realty 903-530-5483
emily@gregoryrealtors.com www.smith.realtor