How Much Money Should I Save Before Buying a House?

Owning a home is an important milestone in life, but saving for your dream home can seem daunting, especially if you don't know how much money you should be putting aside each month. The housing market is extremely competitive and so it's important to have your financials figured out before you start looking at houses.

According to Redfin, the typical millennial income is $85,233 and they have about 26% of their income left over after accounting for housing payments and other expenses. The median-priced U.S. home is now $413,000. That means you'll need to create a solid savings plan in order to have enough money for a down payment.

If you set saving for a house as your priority, make a plan for how to put money into savings, and set realistic goals, you can save for a down payment in just a few years. With this guide, you'll be well-equipped to make smart choices and achieve your dream of owning a home.

Determine Needs by Creating a Budget

Creating a budget is the first step in saving for your dream home. A budget can help you get an accurate picture of your income and expenses, which can help you create realistic savings goals. Here's how to get started:

1. Gather Your Financial Documents: The first step is to gather all your financial documents, such as bank statements, credit card statements, and any other bills or receipts you have. These documents will provide you with an overview of your current financial situation.

2. List Your Income Sources: Once you have your financial documents, list all your sources of income. This includes your wages or salary, any investments, rental income, or other sources.

3. Calculate Your Monthly Expenses: Next, calculate your monthly expenses. This could include rent or mortgage payments, utilities, food, car payments, insurance, credit card payments, and other recurring costs. Make sure to include any variable expenses too, such as entertainment or travel costs.

4. Compare Your Income and Expenses: Now compare your income and expenses. Hopefully, you are making more than you spend. If not, you'll need to decide where to cut back.

5. Set Savings Goals: Finally, figure out how much you can put into your home savings account each month. This is the perfect time to set up a high-yield savings account.

Achieving your savings goals requires commitment. It’s easy to blow your budget on a fun weekend trip, or that new phone you’ve been eyeing. But keeping your saving goal front and center makes it easier to say no to things you don’t really need so you can have the home of your dreams later.

10 Costs to Consider When Saving to Buy a Home

When saving for your dream home, there are 10 costs to consider beyond just the price per square foot. These can add up to 10-15% of the total cost of the house, though they won’t be taken into account when lenders are finalizing the amount of the home loan.

These additional expenses need to be accounted for while estimating the overall cost of the house and provisions should be made for them right from the start. To help you get prepared, here is a list of the 10 costs associated with buying a home:

1. Down Payment

A down payment is an initial payment made when purchasing an item that is usually a percentage of the total cost. It serves as a way for the buyer to show the seller that they are committed to the purchase and will make the remaining payments on time.

2. Closing Costs

Closing costs are fees associated with the purchase of a home that is paid at the closing of a real estate transaction. Closing costs typically range from 2% to 5% of the purchase price of the home. Closing costs vary depending on the location, type of property, and cost of the property. Common closing costs include lender fees, appraisal fees, title insurance, origination fees, attorney's fees, and taxes.

3. Moving Expenses

If you are relocating to a new city, you should factor in the costs involved in moving your belongings. You may have to pay for a moving company to help transport your belongings from your old apartment to the new one. You also have to consider the cost of shipping or delivering your belongings to the new home. If you're bringing a lot of stuff, this could be very costly.

4. Home Inspection

A home inspection is a professional evaluation of the condition of a home, typically conducted before it is bought or sold. The inspection includes a visual assessment of the home's structure, systems, and components, from the roof to the foundation. The inspector looks for signs of current or potential problems that may need repair or replacement.

5. Property Taxes

Property taxes are taxes that are imposed on real estate or personal property. They are typically paid by the owner of the property to a local government, such as a county, city, or town. Property taxes may be rolled into your mortgage payment each month depending on the type of loan.

6. HOA Dues

HOA (Homeowners Association) dues are fees that homeowners in certain communities pay on a regular basis to cover the costs of maintaining and managing the common areas of their neighborhood. These fees may cover things like landscaping, trash removal, snow removal, pool maintenance, and other amenities.

7. Appraisal Fees

Home appraisal fees are fees charged by a professional appraiser to evaluate the value of a home. The fees may vary depending on the size of the home, the location, and other factors.

8. Home Improvements

During your Home Inspection, there may be maintenance issues turned up that you'll need to fix once you own the home. Or you could move in and find that something breaks right away. It's important to have money set aside to do these projects right away.

9. Utility Set-Up Fees

Utility set-up fees are one-time charges that customers may be required to pay when they sign up for utility services such as water, gas, or electricity. This fee typically covers the cost of the infrastructure and administrative work needed to get the service up and running.

10. Homeowners Insurance

Home insurance is necessary to protect you against any unforeseen events. If your home is damaged by fire, theft, or any other disaster, it's best to be safe than sorry. Fortunately, there are many insurance options available for homeowners to protect their homes and families. Homeowners insurance is a type of liability insurance. This means that it covers any legal costs or damages associated with an injury or accident that occurs within the boundaries of the policy.

11. PMI (Private Mortgage Insurance)

Private Mortgage Insurance (PMI) is an insurance policy that protects lenders from the risk of default when a borrower makes a down payment of less than 20% on a home loan. PMI allows borrowers to obtain a mortgage without having to provide the full 20% down payment, making it easier for them to purchase a home.

To ensure that you don't get caught off guard, it is important to plan for all the costs involved in purchasing a property and make provisions for them right from the start. Adding this amount to your savings plan will help you enjoy your new home instead of scrambling to come up with more money before you even move in.

How Much Money Should You Set Aside for a House Down Payment?

If you're like most people, buying a home is the biggest purchase you'll ever make. A down payment is a lump sum of money that you put towards the purchase price of that home. This money typically ranges from 3 to 20 percent of the total cost of the home, depending on the type of loan you take out.

It makes sense to save as much money as possible for your down payment. But how much should you actually set aside?

The answer depends on a few factors, including your income, debts, and how much house you can afford.

If you have a low income or a lot of debt, you may not be able to set aside as much for a down payment. In that case, you may have to look into lower-priced homes or options like government-backed loans that require a lower down payment.

On the other hand, if you have a high income and little debt, you may be able to afford a more expensive home with a bigger down payment. That could mean a shorter loan term and lower interest payments over the life of the loan.

Having a down payment before buying a home has several advantages:

- It reduces the amount of money you need to borrow, therefore reducing your loan payments each month and the total amount of interest you will pay over the term of the loan. This can save you thousands of dollars over the life of the loan.
- Having a down payment can also help you qualify for a better loan with more favorable terms. Most lenders require a minimum down payment of at least 5 percent of the purchase price, so having a larger down payment can help you get a better loan.
- It can also help you secure a better interest rate on your loan. Lenders view borrowers with a down payment as having less risk than those who are putting no money down, so they are often willing to offer lower interest rates.
- It can improve your chances of getting approved for a loan in the first place. Many lenders require that borrowers have a certain amount of money saved before they can even consider them for a loan.

Is a 20% Down Payment still necessary?

In the past, leaders have required a 20% down payment when taking out a mortgage, but it's not the norm any longer. According to the National Association of Realtors, the typical downpayment for first-time buyers was 6%, while the typical downpayment for repeat buyers was 17%.

In general, you should aim to set aside at least 3-5% of the purchase price of the home for your down payment. If you can afford a higher down payment, you may be able to get a better interest rate or avoid paying private mortgage insurance (PMI).

Private mortgage insurance (PMI), is an additional fee that protects the lender in case of default on the loan. It is important to note that PMI can add to the overall cost of the loan.

Calculate Your Potential Down Payment

To save for a home, you'll first need to know how much you can afford. You can calculate your ideal monthly payment using an equation known as the 28/36 Rule**.** According to this rule, your mortgage payment should not be more than 28% of your monthly pre-tax income and 36% of your total debt. This is also known as the debt-to-income (DTI) ratio.

Once you have a general idea of how much house you can afford, then it’s time to calculate how much you need to save. This calculator lets you put in the amount of a house, the percentage you need to save, and how many years you have to save. Then it will tell you the monthly amount you should be putting in your savings account.

Don’t forget to add in the extra expenses we went over above!

If the monthly amount is too high based on your budget, then you’ll need to adjust somewhere. Can you save for another year or purchase a smaller home?

Final Thoughts: Start Saving For Your House

Savings for a home is an exciting step toward achieving your dream. Once you have a budget and savings plan in place, be sure to stick to it. Make sure to track your progress and celebrate when you reach milestones along the way. Create a fun tracker to stick on your fridge, or use an app that allows you to see your progress.

Finally, don’t forget to enjoy the journey of saving for your dream home. While it may not always be easy, the feeling of accomplishment and pride you will feel when you finally purchase your dream home will be worth it.