How not to save for a down payment

By Linsy Hunsaker, Deseret News

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Summary

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1. Should I sacrifice my savings for a down payment?

“Don't save for a down payment until you have an emergency fund,” R. Joseph Ritter Jr., certified financial planner and founder of Zaccheus Financial Counseling, told the Deseret News in an email. “Owning a home comes with its own risks and challenges, including bigger repair bills and more frequent unexpected emergencies. You'll need the cushion after you buy the home to keep your budget from falling apart." So let go of the notion that it's a good idea to spend all of your savings on a down payment.

Bryan Sudweeks, personal finance professor at BYU, agrees that a backup fund is essential. "Emergencies always happen," he told the Deseret News in a phone call. "You want three to six months' income in your emergency fund in case things go wrong."

And these sources of savings should be cash money. "Don't invest your down payment savings," Ritter said. "If the market swings the wrong way, you've lost your down payment money."

Bob Hampton, certified public accountant for Impart Financial, disagrees that growing your down payment is always a bad idea, but admits that doing so too aggressively could get you into trouble. "Stocks are too volatile for an investment that is supposed to be liquid," he said in an email to the Deseret News.

2. Should I worry about retirement?

"If you've got a retirement program and it's a matching one, that's free money," Sudweeks said, so don't ignore your retirement when planning for a house.

While trying to scrounge up the money for a down payment, you might consider dipping into your 401K, but Ritter and Hampton agree that it is a bad idea. You could "stunt the growth of your retirement fund," Ritter warned.

"If you have to engage in risky financial maneuvers to afford a house," said Ritter, "then you can't afford a home and shouldn't buy it."

3. Just save what's left over?

"The budget is the single most important goal," Sudweeks said. He teaches his students to always save 20 percent, which they can use to meet their financial goals.

“Without a budget or an overall plan,” said Ritter, “you won't know how long it will take to save what you need, how much to set aside each month, and whether you can meet your other financial goals as well.”

4. Should I strive for the biggest house I can?

“The old rule of thumb was: get into as much house as you can and stretch, and you’ll be able to make it,” said Ritter. However, we know now that the value of a home will not always go up.

“[And] if you aim to buy a $400,000 house with a 10 percent down payment,” said Hampton, “you will probably have to pay a higher interest rate and mortgage insurance compared to using that same down payment on, say, a $200,000 house.”

But even if you get the biggest house you can and pay for it all, Sudweeks warns that spending too much of your income on a house could prevent you from saving for retirement.

“You can’t let one of your goals get in the way of your other goals,” he said. “You always have to ask the question: What is the impact of this going to be on my other goals? Because you’ve got to have balance in your life.”