



Seven Ways to Save for Your Down Payment

By Nancy Dunnan

Very few things in life are quite as exciting as buying your first home. It's part of the American dream. And although home prices keep rising, ownership is within the realm of possibility, even for those who don't make humongous salaries. Of course, the larger your down payment, the lower your monthly payments. And if you can come up with 20 percent, you avoid paying expensive private mortgage insurance (PMI).

Why you want to avoid paying PMI: PMI typically costs about 1/2 of 1 percent of the loan. For example, if you put down 10 percent on a \$100,000 house (\$10,000), your annual PMI costs will be \$450. And, these payments are not tax deductible. If your down payment is less than 20 percent of the sale price, you must take out PMI.

Here are seven ways to begin on your mission of ownership...

Step one: Get with the program

The first step toward saving enough money for a down payment is a psychological one—desire. You (and your spouse or friend) must REALLY want to buy a house. With enough passion for ownership, you'll find yourself motivated to save every penny you can.

To boost your desire, spend a weekend looking at houses or condos within what you think is your price range. Saving will be a whole lot easier if you have a vision of a two-bedroom, two-bath house with white shutters on Elm Street dancing in your head. This vision will make it easier to say no to shopping sprees, buying a second car or going on an expensive vacation.

Take pictures of your favorite properties and tape them to your refrigerator door or better

yet, prop them up on your desk next to your checkbook.

Step two: Review your budget

Or, if you're budget-free, draw one up. Then list those areas where you can cut back on spending and earmark that money for your special Down Payment Account (DPA). Don't cut out everything that's fun ... you want to enjoy life BH (Before the House), but do start to be more cautious.

Here are some savings tips to get you in the right frame of mind. Add your own to the list.

- Drive at the speed limit. Traveling at 65 mph versus 55 mph increases fuel consumption by a whopping 20 percent. (GM Motor Club)
- Clip coupons. If you save \$25 a month with food and drug coupons, that turns into \$360 a year.
- Take your lunch to work. If you're spending \$8 a day on a sandwich, Coke and an ice-cream cone, that's \$2,000 a year, assuming two weeks out for vacation. And that's not counting those in-between snacks of chips, pretzels and cappuccino. Figure out what you spend per day on lunch; then on the days you brown bag it, put that amount into your DPA.
- Carpool. Or, walk, bike or take the bus to work. Taxis are a guaranteed way to spend \$5 in five minutes.
- Talk less. Make sure you have the cheapest calling plan. And if you make a lot of long distance calls, get a prepaid phone card.

- Skip the babysitter. Set up a co-op arrangement with friends and neighbors.
- Stop smoking. Quitting a pack-a-day habit will save you about \$1,095 a year.
- Cut back on dining out. Send the amount you save to your DPA.
- Never open a catalog. Toss them out immediately. If you peek inside you're bound to find something you like.
- Don't carry much cash. If you leave your ATM card, your credit card, your debit card, your checkbook, and most of your cash at home, it will be hard to spend much. Instead, carry enough cash for the day plus one bank check and for emergencies, several traveler's checks.

Step three: Open a DPA

You'll need a special account to hold your savings, such as a high-yielding bank savings account or certificate of deposit (CD).

Keep in mind that bank CDs have a definite advantage over a money market or savings account: The money in a CD is tied up until it comes due. In other words, you'll be penalized if you take the money and run before the maturity date. Bottom line: You'll be less apt to use this money for something other than your house. CDs come in a variety of maturities from one to five years. Figure which time horizon matches your ownership goal.

\$Tip: Be sure to read *Certificates of Deposit: Tips for Investors*, a free SEC publication.

Step four: Tell your family

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If your parents or other relatives send you presents for your birthday, anniversary or the holidays, they might instead contribute to your DPA. Don't insist—some parents

prefer to shop for special gifts for their kids. However, it won't hurt to let them know about your goal.

Step five: Go automatic

If you don't see it, you won't spend it. Arrange for a certain dollar amount to be taken out of each paycheck and automatically transferred to your savings or money market account at your bank or credit union. If you're self-employed, set up the same type of plan at your bank and have money transferred each month from checking to savings or to a mutual fund.

Step six: Reduce credit card debt

Always pay at least the minimum due each month on your cards to avoid high interest rates. Better still: Pay each bill in full and completely avoid high rates on unpaid balances. And make certain you mail the check (or transfer the money) well in advance of the payment date. A growing number of credit card issuers are hitting customers with late arrival penalties.

\$TIP: Ideally, you should wipe out credit card debt as quickly as possible. Begin by paying down the credit card with the highest interest rate first.

Step seven: Keep on a-paying

When you pay off a car loan or education loan or get rid of a credit card debt, continue to write a check for that same amount every month—but put it into savings. You've learned to live without that money, so now you can sock it away.

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