How to Save Money for a House

Buying a home is one of the biggest and most ambitious financial goals for most Americans. It takes a lot of planning and due diligence to do it right, from researching home prices to saving for a down payment.

The first question new buyers often ask is "How to start saving for a house?"

The best way to save money for a house is to create an effective plan for saving money while still meeting your financial obligations. Developing an understanding of your cash flow will also help you maximize your savings and reach your homeownership goals sooner.

In this article, we will provide you with some of the best tips for saving for a house.

Tips for Saving for a House

Whether you plan to buy a house in a year or five, you'll need substantial savings for your home's down payment, in addition to closing and moving costs. Though it may seem daunting at first, saving for a home is doable, so long as you have the right plan!

Below are some of the best tips for saving for a house:

Research Home Prices

Exploring home prices in and around your preferred locale is a critical step to determining how much to save for a house and how much you'll need for a down payment. Real estate websites like Redfin, Zillow, Realtor.com, and Trulia can provide details on house prices, sizes, and even take you on a virtual tour of the properties you find most interesting.

See if You Qualify For a Government Loan

The US government offers a wide range of home loans, but these come with tradeoffs.

Take, for example, the basic Federal Housing Administration (FHA) home mortgage that allows homebuyers to buy single-family homes through FHA-insurance programs.

On the other hand, veterans, service members, and reservists can apply for the Home Loan for Regular Purchase to finance their purchase with a zero down payment.

You can research your eligibility for these and other loan options at GovLoans.gov.

Decide On A Down Payment Amount

Say, for example, you want to buy a house that's on the market for $300,000. A 10% down payment would require you to pay $30,000. On the other hand, a 20% down payment will be $60,000, which is a pretty hefty amount, but paying more upfront will keep your monthly payments more manageable.

So, how do you decide on a down payment amount?

The more you're willing to pay upfront, the smaller your loan will be, which means you'll pay less over the life of the loan. You may also be able to dodge private mortgage insurance (PMI) and other fees on a down payment of 20% or more.

On the other hand, saving 20% for a down payment just isn't possible for many Americans, and even if it is, it might take years and years.

Indeed, a smaller down payment can help you buy your home sooner but at the cost of higher interest rates and more fees. Ultimately, your decision will depend on your financial situation.

Prepare For Closing Costs

The down payment isn't the only upfront cost of buying a home; you'll need hard cash to cover appraisal costs, home inspections, property taxes, insurance, and other additional costs depending on your property and the type of loan you've acquired.

Generally, closing costs equal 2% to 5% of the purchase price, so for a $300,000 home, make sure you have around $6000-$15000 available to cover these expenses.

Set A Timeline

Setting up a goal purchase date – whether it's a timeline of a year, five, or even ten years down the line – can help you estimate how much time you will have to save up before you reach your purchase date.

Calculate Your Monthly Savings Amount

How much do you need to save to buy a house?

Ideally, you should look at your purchase date and calculate your savings backward from there.

Continuing with our example, if you plan to buy a house worth $300,000 five years from now and your down payment is $30,000 (10%), you should aim to save $45,000 to account for closing costs and other expenses. To save this amount in 5 years, you will need to put away an average of $750 a month.

Track your progress visually; use an income and savings tracker to check whether you're on track with your saving goals and to monitor any extra income you've earned through bonuses and tax refunds.

Explore High-Yield Savings Accounts

The best way to save money for a house is to credit your savings to a high-yielding savings account.

High-yield savings accounts are designed to grow your money faster than traditional savings accounts, and since many high-yield accounts tie up your funds for a specific period, you won't be able to tap into these funds without facing penalties.

Cut Unnecessary Expenditures

Although saving $750 a month may seem daunting, you might be closer to saving this amount than you think!

The first step is to reduce your unnecessary expenditures across the board and to put that money into your home savings account.

For example, reducing your grocery budget by $50 a month will yield $300 in 6 months, and by making cuts in other areas, you can further increase the rate at which you're saving.

Remember, slow and steady wins the race—so don't get discouraged if you feel like you're not saving enough.

Below are a few other money-saving tips to help you get started:

- Reduce your takeout orders
- Do regular spending freezes
- Overnight meal prep and meal plans
- Reduce your monthly recurring costs (cable, streaming services, gym membership)

Consider Pausing Retirement Savings

Pausing your retirement fund can sound like a poor financial decision, but it can allow you to gather funds towards your home purchase.

In fact, if you've been making contributions to a 401(k), you can quickly come close to your down payment within a year by allocating that cash flow to your home savings. At the end of the day, the pause is temporary, and you can resume saving for retirement once you have enough to pay for a home.