

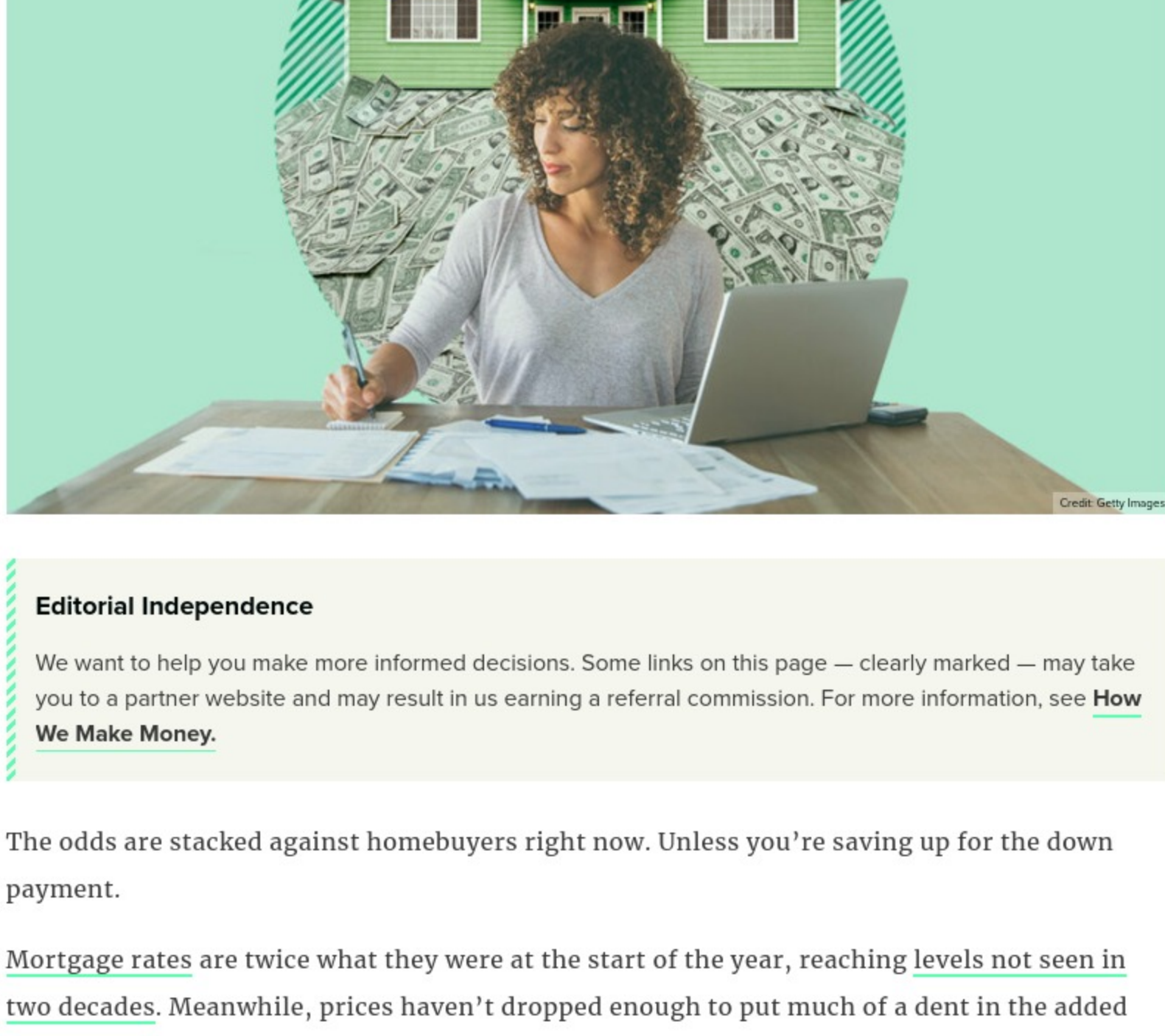
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BANKING

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# It's a Tough Time to Buy a Home Right Now, But a Great Time to Save for the Down Payment

Jon Reed  
October 31, 2022 17 MIN READ



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The odds are stacked against homebuyers right now. Unless you're saving up for the down payment. [Mortgage rates](#) are twice what they were at the start of the year, reaching [levels not seen in two decades](#). Meanwhile, prices haven't dropped enough to put much of a dent in the added cost of borrowing.

The [typical American home cost](#) \$357,810 at the end of September, up from \$311,523 in September 2021, according to Zillow. But the [monthly principal and interest payment](#) on that home, at the average rate for a 30-year fixed rate mortgage, is \$1,920 today, compared to \$1,074 a year ago.

That's a massive cut to affordability for potential homebuyers. But for those who aren't quite ready to buy, there's a silver lining: Rising interest rates mean higher yields on [savings accounts](#).

Money that would make you pennies on the dollar in a traditional low-interest savings account could fetch you an [annual return of 2% or more](#) in a high-yield account today — and those rates have grown dramatically in the past year. That means your savings for that big down payment has an opportunity to grow even faster.

"This is the largest chunk of change, the largest amount of cash that a lot of people will have saved their whole lives," says [Stacie Rihl](#), a homebuying educator and real estate matchmaker. And that interest, even if 2% seems small, can add up. "If you get a couple hundred bucks from it, that's a free [home inspection](#)," Rihl says.

Here's how to take advantage of these rising interest rates, wherever you are in your homebuying process.

## If You're Ready to Buy a Home, Take What You Can Afford

A home is often described as an "asset" or an "investment," but for most people, it's not merely or even primarily a financial tool. It's a place to live. And you need one of those.

This decision, for most people, isn't dictated by the financial environment. "Those who are interested in buying a home, they're still going to do that," says [Nicole Carson](#), a CFP and lead financial planner at Brunch & Budget.

Despite the highest mortgage rates in 20 years and home prices still near record highs, you may be able to find a home you love and can afford. Experts say you shouldn't wait in hopes rates or prices will drop, because the future is unpredictable.

"I don't recommend waiting for the sake of waiting," Rihl says.

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<b>Bask Bank</b>	4.03%	\$0	\$1,008	Partner Offer
Promoted offer: 0 Monthly Acct Fees. No Balance Cap to Earn APY.				
<b>LendingClub</b>	3.60%	\$0	\$900	Partner Offer
Promoted offer: Plus, no monthly fees and unlimited free external transfers				

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## How Much Do You Need to Save for a Down Payment?

On the other hand, the current housing market might not fit your budget, or you may still be several months or a couple of years away from being in position to buy. In that case, start preparing now to have a solid down payment.

First, understand [how much you need for a down payment](#). The typical American home sells for somewhere around \$300,000 to \$400,000 right now (although that's very dependent on [your market](#)), and you'll likely need a decent portion of that in cash to close the deal. The traditional advice has been to put down 20% of the sale price — that's \$80,000 of a \$400,000 house — but that's by no means necessary. You can secure a conventional loan with as little as 3% down — \$12,000 for a \$400,000 home — or, if you qualify for a [VA loan](#), no down payment at all.

You'll also have to factor in [closing costs](#), the fees and other expenses that come along with the home purchase. Those add another 3 to 6% of the purchase price.

One way to pay is to make practice mortgage payments, in which you budget how much you'd expect to save every month for a mortgage and put the difference between that and your rent in savings for a down payment. That may not be enough to get you to the down payment you need, depending on your current savings.

"A lot of time it ends up being more because the down payments are relatively large," says [Brian Walsh](#), a CFP and senior manager of financial planning at SoFi, a national personal finance and lending company.

## Savings Rates Are Moving Up

The same forces driving mortgage rates into the stratosphere are nudging savings account rates out of the basement. Some of the best accounts are now offering returns over 3% APY, and they're still going up.

"Is it a good time to save? Absolutely," Carson says.

[Savings rates are rising](#) because the Federal Reserve is ratcheting up its interest rate to combat the [highest inflation in 40 years](#). The federal funds rate — which determines what banks charge each other to borrow money — doesn't correlate exactly with what banks offer savers, but the increases have encouraged many to offer better returns.

## How to Maximize Your Down Payment Savings

As you save for a down payment, where to keep it depends on your timeframe for buying a home.

### If You're Buying Soon

Maybe your homebuying timeframe is measured in months, or you're just waiting on the perfect house to reveal itself. In that case, experts say a [high-yield savings account](#) is the best way to go. There's no risk your balance will drop, and it's not locked up for a certain period of time.

"If your goal is to buy a home in the near future, our recommendation is to still make sure that money stays liquid, meaning you can access that money very quickly," Carson says.

The best high-yield savings accounts — often from online-only banks — are offering rates above 3%.

### If You've Got a Few Years

Perhaps buying a home is something you've got your eye on soon, but you're still building up the savings or [fixing your credit](#) or otherwise preparing yourself. If you have a year or so, you can start thinking about opportunities that come with a higher return, but give you less flexibility. Those options include [certificates of deposit](#), or CDs, and bonds. Both CDs and bonds are low risk — you won't end up with less money than you put in — but will sometimes give you a better return than a savings account.

Rates for CDs are increasing, but make sure there's enough of a difference between the rate you'd get with a CD and that you'd get with a high-yield savings account to make them worth it. With a CD, your money is locked up for a period of time, limiting your flexibility. "If I know my goal is two years out from buying a home or even three years out from buying a home, that's a great place to stash some down payment money too," Carson says.

Bonds could also offer higher returns, particularly [Series I bonds](#), for which the rate is set based on inflation. At a time of high inflation, like now, that means the return is significantly higher. The downside is that you need to keep your money in them for a while to be worth it, and you can only invest \$10,000 per year, which may only be part of your down payment.

"If your goal is to buy in the near future, I don't know that an I bond necessarily makes sense," Carson says.

### If Homeownership Is a Longer-Term Goal

A home is usually one of the largest purchases most of us will ever make, and that means it's never too early to get started. If you know you've got several years before you plan on needing the down payment, all of the options above — high-yield savings, CDs, bonds — still make a lot of sense. But you could also try for higher returns by [investing the money in the stock market](#), if you're willing to take the risk.

That might make sense for people who are five or 10 years away, but not for buyers with shorter-term goals, Carson says. "We always encourage clients, if your goal is short-term in nature, the stock market is not necessarily the best place for you."

The stock market is too volatile to put your down payment in if you'll need it soon. You don't want to find your dream home when the market is down and suddenly have less of a down payment than you expected.

"If they're looking at buying a house or using the money within the next three years, it should not be invested in the market. It should be in some sort of cash, cash equivalent or a short-term bond," Walsh says.

**PRO TIP**  
The best place to keep your down payment depends on how soon you'll buy a home, but high-yield savings accounts offer relatively high returns and great flexibility.

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<b>Bask Bank</b>	4.03%	\$0	\$1,008	Partner Offer
Promoted offer: 0 Monthly Acct Fees. No Balance Cap to Earn APY.				
<b>LendingClub</b>	3.60%	\$0	\$900	Partner Offer
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