

# Saving for a Downpayment



## *Taking the Time to Do the Homework Can Give Buyers a Better View of Reality*

**S**everal organizations recently released studies on how many years of work and saving it takes to save for a downpayment. One of the latest, by personal finance technology company SmartAsset, found that where you want live—not just your debt, choice of home and saving skills—can determine how long it will take to save for a downpayment.

For the 50 largest cities, SmartAsset started with the reported median home value and the median household income. Assuming 20% of the median home value, SmartAsset divided the estimated downpayment by the annual estimated savings to arrive at the estimated years of saving needed to afford a downpayment.

They found that in some cities, the average home is worth so much more than the average income that it can take nearly a decade of more of saving for a 20% downpayment. Here are the cities that required the longest times to save for a 20% downpayment:

1. Los Angeles, 10.90 years;
2. San Francisco, 9.87;
3. New York, 9.68;
4. Oakland, 9.55;
5. Long Beach, Calif., 8.64;
6. Miami, Fla., 7.96;
7. San Diego, 7.94;
8. San Jose, 7.87;
9. Boston, 7.79;
10. Washington, D.C., 7.63.

Below, we have reprinted a short Q&A with A.J. Smith, SmartAsset's Vice President of Content and Financial Education. Smith is a personal finance expert who leads a team of journalists and public relations professionals at SmartAsset. She is an award-winning journalist with more than a decade of experience in television, radio, newspapers, magazines and online content. She holds degrees from Princeton University and Mississippi State University.



A.J. Smith

**Q. Did it surprise you to learn that it takes as long as a decade to save for a downpayment in some of the markets you looked at?**

**A.** For people living in those cities who are looking at some of the local home prices, it may not be so surprising that it would take a long time to save up for a 20% downpayment. I

think the big thing is, people don't often sit down and run the numbers. Exactly how long would it take? What amount of money would you have to put away in order to get there? People should really do the math and find out what the reality is for them and their family.

**Q. Do you think the time required**

to save for a downpayment today is delaying household formation and the ability of millennials to become homeowners?

**A.** This is not something that we've done any specific studies on. But certainly, there is a theory in housing that many millennials have an earnings deficit from costly student loans that they have to focus on first and are putting off home buying. Or they may not even be as interested in home buying compared to previous generations. Certainly, I think that when they look at the actual cost of homes, it can be a scary thing. They say, "Oh, I'll worry about that later."

That's one of the mindsets that we hope this study will change. Instead of feeling discouraged that they will never be able to buy a home for whatever the median home value is where they live, we hope the study will get them to say, "Well, what will it take? Let me see what I would need. What if I saved 5% of my income toward a downpayment? What if I saved 10 or 20%?"

If you broke down the numbers and worked your savings goal into your budget, you would have a little more control. People should really do the math.

**Q. We have seen a lot of studies that say consumers believe that you must have 20% down to buy a home today. What do you think of that?**

**A.** When people hear that they'll need a 20% downpayment and they calculate that cost in their markets, they tend to look the other way and put it off until later in life. The more informed you are, the better you can take control of your finances. By looking into different downpayment program options, you will find out you that can get a mortgage with less than 20% down. That lower downpayment, however, comes at a price as you will be required to pay private mortgage insurance. By running those numbers, you can find out exactly what that means. Is it worth it to you? Does it get you closer to your financial goals or not?

