MarketWatch GUIDES

How To Save for a House

Last Updated: Nov 13, 2024

Learning how to save for a house requires setting a savings goal, creating a budget and choosing the right type of account to grow your savings.

Principal Researcher
Adam Frankel

Editor
Jared Macarin

In This Guide

Buying a home is a big purchase and can be one of your most important financial assets. The first step toward becoming a homeowner typically starts with saving for a down payment, but there are other expenses, such as closing costs, to consider with a home purchase.

We at the MarketWatch Guides team share what you need to know when saving for a house and strategies you can employ to get the most out of your savings goals.

Key Takeaways

- Set a budget and a timeline for when you want to purchase a home, factoring in a down payment and closing costs.
- Take advantage of interest-bearing deposit accounts such as certificates of deposit, money market accounts or high-yield savings accounts to grow your money faster.
- Consider taking on a side gig or part-time work to boost your income, and reduce nonessential expenses to help you reach your savings goals.

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Setting a Savings Goal and Timeline

When saving for a down payment on a new home, consider how much you can contribute as a down payment and how much you can afford.

First, you'll need to get a general idea of what real estate you can afford based on a combination of your yearly income, current monthly debts, the length of the mortgage loan, the interest rate and how much you can put down for a down payment.

If you plan to put down less than 20% of the purchase price of a house as a down payment, you'll likely have to pay private mortgage insurance, which is an additional monthly cost rolled into your home loan.

Working with a mortgage lender can also help you get a clearer picture of what loan amount you can afford. Your actual monthly mortgage payments will be partially based on the mortgage rates you qualify for, which is partially based on your credit score, income and other financial factors.

Calculating a Savings Goal and Timeline

The median sales price of a house in the U.S. was $412,300 in the second quarter of 2024, according to the Federal Reserve Bank of St. Louis. With this home price in mind, if your goal is to put down 20% of the home's purchase price, you'll need to save $82,460 for that.

You'll also need to save for closing costs, which are typically about 3% to 5% of the total amount of the loan. You'll also need to cover expenses such as title insurance, legal fees, appraisals and other costs associated with buying a home.

So if you add 4% for closing costs, that would be another $16,492. Then add $1,500 for movers, which brings the total amount you should aim to save to $100,452.

Once you have a goal number, calculate how much you'd need to put aside each month based on your desired timeline. Say you want to reach your goal in five years. In this case, you'd divide $100,452 by 60 months, which equals $1,674.20. So, you'd need to save $1,674.20 per month to reach your home savings goal.

Budgeting Tips To Save for Your Down Payment

Start with analyzing your spending habits, and then compare them to your income. You can use pen and paper to accomplish this or take advantage of budgeting apps or tools. Some of the best budgeting apps make it easy to stay on top of monthly income versus expenses.

Then, see if there's anywhere you can cut back to allocate more money toward a down payment, such as cutting unused subscriptions or dining out less. Alternatively, you may want to take on a part-time job to earn extra income to build your down payment savings.

Choosing the Right Savings Accounts and Investment Options

Choosing the right savings option depends on when you need to access your house savings fund and your comfort level with risk.

High-yield savings accounts, money market accounts and CDs are all protected by Federal Deposit Insurance Corp. or National Credit Union Administration insurance. This means your money is protected up to $250,000 per depositor and per account ownership category. Investment accounts aren't insured, so they carry more risk than a fixed- or variable-rate deposit account, but the potential payoff is greater.

High-Yield Savings Accounts

A high-yield savings account can be an excellent place to store savings for a house. HYSAs earn variable interest well above the national average rate so your money grows faster than in a regular savings account. For example, the national average rate for a savings account is 0.83%, but some of the best high-yield savings accounts offer annual percentage yields ranging from 4% to 5%.

Another benefit is that you can add or withdraw your money at any time, which isn't the case with CDs, bonds or stock market investments.

Money Market Accounts

Money market accounts are similar to high-yield savings accounts in that they earn at a variable interest rate that's typically higher than the average rate for savings accounts. But they also come with typical checking account features, such as check-writing privileges, a debit card and ATM access. They may also have a minimum opening deposit, minimum balance requirements and some withdrawal limitations.

CDs

A CD is a time deposit account, and you'll typically earn a fixed interest rate for the entire term. CD term lengths can range from one month to 10 years, and you can find high-yield CD options with rates that rival the top HYSA and MMA rates. Generally, you can't withdraw your money before the maturity date without paying an early withdrawal penalty.

A CD could be a great way to put funds aside for a down payment. But if you don't like the idea of locking your money up for a period of time, a money market or high-yield savings account would be a better fit. Or, consider a no-penalty CD.

>>Related: Money Market Accounts vs. CDs

Investment Accounts

If you're willing to take on some risk, an investment account could help you save money for a down payment. The most common types of investment accounts include stocks, mutual funds, bonds and exchange-traded funds.

"Concentrate on how much you can save rather than obsessing over finding the perfect investment," said R.J. Weiss, a certified financial planner and CEO of The Ways to Wealth. "For short-term goals, the interest rate has a minimal impact on your success compared to your savings rate."

Stocks

When you buy a stock, you're buying a piece of a company, known as a share. Owning a stock is betting on the company's success, as the value of your stock will rise or fall based on the company's profits. This can be a relatively risky strategy because if a company fails to meet their financial goals, you'll lose the value of your investment.

"[S]ome investments, such as stocks, can drop prices quickly," Weiss said. "A good rule of thumb is that you should have no exposure to stocks if a goal is less than three years away."

Mutual Funds

Mutual funds are shared portfolios of investments, typically involving a mix of securities. They're generally a safer option than stocks. If one type of investment in the mutual fund mix doesn't do well but another one does, it can help keep your investment profitable.

Bonds

Buying bonds can be a lower-risk investment, especially when buying a government-issued bond. With a government bond, the risk is relatively low since it's highly unlikely the U.S. government would default on the obligation. However, municipal bonds and corporate bonds carry more risk as there is an increased likelihood of the municipality or company going bankrupt.

ETFs

An ETF is similar to a mutual fund in that it invests in a bundle of assets, which means your investment is diversified and risk is spread out across those assets. Unlike mutual funds, which can only be sold once a day at the end of a trading day, ETFs can be traded like stocks on an exchange throughout the day.

Strategies To Boost Your Savings

In addition to cutting expenses, and considering various deposit and investment strategies, there are other ways to boost your savings. Automating your savings so that you don't have to think about it can simplify your finances, and most banks allow you to automatically move money from your checking account to another account at a set cadence.

"Never underestimate the power of doing nothing once you have set yourself up for success," said Bobbi Rebell, CFP and founder of Financial Wellness Strategies. "Automating savings and investing can be magical. The key is to pay attention and be aware of systemic changes so you can make proactive decisions as needed if circumstances change."

To reach your savings goal faster, you may want to take on part-time work for extra cash. Easy-to-find side hustles such as pet sitting, selling items on eBay or Etsy or delivery driving can be accessible ways to pad your income.

Maintaining Financial Discipline

Saving for a new home or your first home takes patience and discipline. You can set yourself up for success by consistently putting money aside for your down payment fund and regularly reviewing and adjusting your budget.

Stay focused on your homeownership goals by avoiding other large purchases or taking on unnecessary debt, such as credit card charges. A house is a major investment in your future, both financially and as a part of your lifestyle. The hard work of saving now is sure to pay off in the years to come.

FAQ: How To Save for a House

How much should I save for a house down payment?

How long does it take to save for a house?

What expenses should I consider besides the down payment?

**Data accurate at time of publication*

If you have feedback or questions about this article, please email the MarketWatch Guides team at editors@marketwatchguides.com.

Meet the Team

Jared Macarin
Editor

Adam Frankel
Contributor

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