Jordann Brown Interview Summary

Intro

Jordann Brown is the blogging mastermind behind my-alternatelife.com, a blog dedicate to managing personal finances. Jordann is a savings expert who not only paid of $38,000 in student loan debt within two years, but also saved up a $10,000 emergency fund, and over $30,000 for a house down payment in under a year and a half.

We've picked her brain for her attack plan for calculating and saving for your ideal down payment.

Renting vs. Buying: Know what's better before you take the home ownership plunge.
Buying is an intensely personal decision. With that said, there are situations in which it makes more financial sense to rent vs buy.

How do I know if I should rent instead of buy?

- Is the city you live in the place you intend on staying in for a while? Is there a possibility you could move soon due to career, relationships, or personal whims?
- Do you have stable employment?
- Are you financially secure? Do you have significant debt, have you built up an emergency fund, do you have other savings?

If you could move soon, don't have stable long-term employment, or aren't financially secure, renting might be a better option for you due to its flexibility.

So you know you're ready to buy. Now what?

Downpayments

Common Down Payment Percentages

- The most common percentages are 5%, 10%, 15% and 20%.
- Down payments are directly correlated to your monthly mortgage payments. The more money you put down, the less money you have to take out in a loan to finance your house and, thus, the lower your monthly payments. The converse of this is true.
- It is traditionally recommended that you put down 20%, though this will vary depending on housing costs, your goals, and what you can afford

- The lower your down payment, the more money you have to pay in mortgage insurance. Mortgage insurance protects your lender in case you default and can't make your payments. It doesn't protect you. It protects your lender.

Pros & Cons of Lower Down Payments

- Consider your goals: how long you want to save before purchasing your home? Jordann's original goal was to save 20%, but she compromised with a 10% down payment because she didn't want to save for an additional two years before buying her home. If you want to get in the home sooner rather than later, consider whether you can afford a higher mortgage + higher mortgage insurance in exchange for less down.
- Will your monthly payments + mortgage insurance detract from your equity? If a higher insurance rate and monthly payment will leave you with little equity in your home, it isn't worth it to cut corners. Go for a higher down payment.
- A higher monthly mortgage payment can impede your monthly living costs. If a higher monthly mortgage payment will negatively impact your ability to save or pay off debt, then you can't afford to put less down.
- Use an online mortgage calculator to make these decisions easier. Plug in your down payment percentage and see how it affects monthly mortgage, equity, and insurance. Find what works for you.

Calculate Your Down Payment Percentage

It doesn't start with the down payment

- What can you afford? Look at your monthly budget. Figure out how much you can afford to spend on housing per month. Your housing costs shouldn't account for any more than 35% max of your net monthly income. (This is cumulative: includes property taxes, insurance and utilities)
- That gives you your maximum purchase price. Use the online mortgage calculator to see how different down payment sizes affect this price. If a lower down payment pushes your maximum purchase price above 30-35% of your net monthly income, you'll need to go with a higher down payment percentage. Or, alternatively, consider different neighborhoods with cheaper real estate that would work better with your budget and timeline.

How Long Should You Save?

- This is absolutely a personal situation. How soon do you want to be in your house? How fast can you realistically save your down payment percentage?

- Jordann saved $33,000 in about a year in a half. Her savings plan was very aggressive and she and her husband have a cumulative income of around $100,000/year. Adjust based on your income, how aggressively you want to save, and how much you need to put down (i.e. how expensive is the house/property)
- Jordann also was in a place of complete financial stability. She paid off all debt, built up a $10k emergency fund and makes regular retirement contributions. It took her years to reach financial stability. If you're already there, that's great. If you're not, factor in a longer timeline.

Where Do Those Savings Come From?
Prioritize this as your financial goal. Make monthly contributions. Find out how much you'll put down in a year with those monthly contributions. This gives you an estimate of how many years it will take to save up the full amount. If you want to be more aggressive, see if you can contribute more each month by cutting down in other areas or by grabbing a side hustle.

Jordann and her husband were putting down $1,000 per month in addition to her freelance income which is about 25-50% of her gross income.

Where Do I Keep These Savings?
If you plan on being in your house within the next 5 years, go with a savings account. It's less risky than an investment account. If you plan on saving for longer than that, go with the investment account (or at least invest a portion) and let your money work for you. Why? If the market crashes, it might take longer for your money to recover within that shorter time frame of under 5 years. If your purchase goal is longer term, your money will likely have time to recover.

Recap:

1. Is it a financially stable decision for you to buy vs rent?
2. Define Goals: When do you want to be in your home?
3. Find Maximum Purchase Price: What can you afford each month? Stay below 30-35% of net income. Find houses within your budget range.
4. Use Online Mortgage Calculator: see how different down payment percentages affect maximum purchase price, home equity, mortgage insurance rates, and monthly mortgage cost
5. Pick Your Ideal Down Payment Value
6. Start Saving: Pick monthly contributions to Home Fund
7. Calculate yearly contributions based on monthly figure. Divide down payment goal by this to get an estimate of how long it will take you to reach that goal.