Interview with Jordann Brown of my-alternate-life.com

Brittany: Hi, everyone. Today, I'm here with Jordann Brown. She's the blogger behind "My Alternate Life," which is a great personal finance blog; be sure to check out her blog. Today, we're really lucky, because she's here to share her savings expertise and help us learn how to calculate and save an ideal down payment for aspiring home buyers, so welcome, Jordann.

Jordann: Thanks for having me.

Brittany: Awesome. I think I'm kind of just ready to jump into our first question. That's kind of just ... can you tell me a little about your background in personal finance, what got you interested in it in the first place and kind of your story?

Jordann: Yeah, absolutely. A little bit of background about me ... I'm from Alberta, Canada. I'm a business graduate from the local university here and I've always sort of had an entrepreneurial streak, but I was never really very interested in money until right after I graduated from university and I had a monster amount of student loans that were about to come due to be paid. I got in a car accident. I was a new graduate and I wasn't making very much money and I definitely didn't have any money saved, and then I got in this accident and actually broke my wrist and totaled my car.

It was extremely stressful and I had no savings cushion or anything like that to fall back on, so once that was all resolved, I sort of vowed never again am I going to allow myself to be put in this situation where I was very unprepared financially. Then, that sort of got me on the road to looking at personal finance blogs on the internet, when I realized there's a bunch of other people out there who are also very responsible with their money. Then, my student loans came due and I was very in debt and I decided that I was just going to pay them off really quickly and I started a blog to talk about that.

Brittany: That's fantastic! You did! You paid them off so quickly and that's kind of the expertise around your blog is you're kind of a savings expert.

Jordann: Yeah. I mean, it's all sort of in the same vein, right? I paid off $38,000 in 2 years.

Brittany: Yeah. That's fantastic!

Jordann: Yeah. Then, from there, I just kept right on going. I didn't stop once I was out of debt. I started saving for retirement, I saved for my emergency fund, and then eventually, I started saving for a home.

Brittany: Yeah. Having personal finance become kind of your lifestyle, and I think that's fantastic and that's what a lot of our readers look forward to is finding their own brand of financial independence through learning how to manage their money. Am I correct in saying that you recently purchased your home?

Jordann: Yes! I bought a home at the end of July!

Brittany: That's fantastic! Congratulations on that. I know, going through your blog, you had so many fantastic blog posts kind of documenting your experience with saving up your down payment and every process leading up to you buying your home that you have now. I guess my question is why did you decide to buy, versus continue renting, because I know you did rent for a little while before that.

Jordann: I was always a renter, long-term renter here and buying versus renting, it's a very personal topic, because I know a lot of people are lifelong renters and they're very happy that way and a lot of people are die-hard homeowners and are very happy that way. I know a lot of people from both sides of the aisle, who are also very financially secure and prosperous, so it's not like buying is the path to wealth and renting is not, or vice-versa. I think for me, why I decided to buy, was just because I wanted to be a homeowner. I'm very handy, I'm a big DIY-er, I have pets, so the lifestyle that I wanted was conducive to home-ownership and that's basically it. It was just a personal choice.

When To Rent vs Buy

Brittany: Right. It's okay, going from that personal choice, understanding that it depends on your lifestyle and what you're looking for and what your financial goals are. In terms of metrics and financial responsibility, are there certain points in your life where it may be more financially sound to purchase a home versus renting, or it's really just that personal decision for you?

Jordann: Oh, yeah, absolutely! There is a bunch of factors that I took into consideration before I even thought about saving for a home, let alone buying a home. The first thing, right off the bat, was I was living in a city that I knew I wanted to stay in for a long time. For anybody who either is just getting started in a career or is in an industry where moving is a significant possibility, or they're just not settled yet, they're just not ready to call the city that they're living in home, I would definitely not recommend home ownership, because then you lose all the flexibility of renting. That's one of the great things about renting is that you can just pick up and go and you don't have to worry about selling this property that you purchased.

Then, another metric that I definitely considered was stable employment. Both my husband and I had finally, after a long search, had found stable, long-term employment, where we didn't foresee switching jobs anytime soon, so that was a big factor for us. Then, the last one was just getting to a point in our lives where we were financially secure, so: debt was paid off, emergency fund was built, retirement savings were starting to finally blossom a little bit, so lots and lots of steps before considering home ownership.

Brittany: Definitely. It sounds like you made sure that you had covered your bases on your other financial priorities before you made such a big investment in a home.

Jordann: Exactly, yeah.

Brittany: Just to kind of recap those steps a little bit, for anybody listening: make sure that you're kind of in a long-term place that you want to live, that you have a stable employment, and that you've taken care of your other financial priorities so that you are in a place to invest. Let's kind of talk about your whole process of deciding. You've decided you want to buy a home. Now I want to talk about down payments, because that's something that everybody has to kind of save up for when they're investing in their home. What are some of the most common down payment percentages that people generally save up for, when they're looking to invest in their home?

Pros and Cons of Different Down Payment Percentages

Jordann: Well, in Canada, I would say one of the most common down payment percentages is 5%, because that is the minimum here, especially with our very inflated housing market. A lot of homeowners can only afford to put down 5%. I would say the best down payment percentage is 20%, because for many reasons, but what I actually ended up putting down was 10%.

Brittany: What are some of the pros and cons of 5% down, 10% down, 20% down ... I'm not sure that there's necessarily a con to that except it takes you longer to save up for it, but what are some of the kind of pros and cons of why did you choose to go with a 10% down payment?

Jordann: I chose to go with a 10% down payment because, for one thing, the bigger your down payment here in Canada, the less you have to pay in mortgage default insurance. Mortgage default insurance is basically what I call the lazy person's tax on home ownership, because it doesn't benefit you in any way. It's only there to protect the lender in case you default. It's not in case you can't make your payments, you're protected; it's they're protected in case you can't make your payment.

It's a premium that actually gets added on to your mortgage amount and it's not equity, so it's eating directly into your home's equity and the way it's calculated goes on a sliding scale depending on the size of your home down payment. If you make a 20% down payment, you don't have to pay any mortgage default insurance. If you make a 5% down payment, you have to pay possibly thousands, possibly tens of thousands of dollars in this insurance premium that doesn't benefit you and eats into your equity.

I personally went with a 10% down payment because it was sort of a happy medium between 5% and 20% for the premium. I ended up paying around $4,000 in mortgage default insurance, which I felt was a justifiable trade-off to not have to save to 2 or 3 more years to get to that 20% point, but it wasn't such a big amount that it left me with very little equity in the home. That would be the biggest reason I would consider for choosing what size down payment that you're going to have. The other reasons it would be the size of your down payment totally affects how much you're paying per month.

The bigger your down payment, the less your monthly payments, the more affordable your monthly payments are. A lot of homeowners tend to over-extend themselves and put only 5% down, and then they're paying a lot per month, which can impede your ability to save money and pay off debt. I did not want my home purchase to impede my budgeting or my saving in any way, which is why I chose the 10% down payment, because the way it worked out with the actual home price, I'm actually only paying $100 more per month on my budget, which is totally feasible.

Brittany: It sounds like a good way to kind of figure that out is to evaluate the opportunity cost of each of those and maybe see that saving for a little longer to pay something that's not necessarily the minimum down payment, but finding a happy medium could be a sweet spot for some of our listeners.

Jordann: Yes, exactly. To figure this all in, definitely check out an online mortgage calculator, where you can literally adjust the down payment amount and see how that affects everything. You can set it at 5%, 10%, 15%, and 20%, and you can see how it affects your equity, how it affects your monthly payments, and that would be a good way to figure out what you're comfortable with. The bigger the down payment, the better. It's really just whatever you can [inaudible 00:10:46] patient long enough to save for.

Brittany: That's a fantastic resource and it was online mortgage calculator?

Jordann: Yeah.

Calculate Your Down Payment Percentage

Brittany: Fantastic! I know you kind of addressed this a little bit in that answer, but are there any other steps a listeners should take to calculate their most ideal down payment percentage in a financial situation, including, depending on how long they want to save for, what are those steps that they need to be aware of when they're calculating "what's right for me to pay?"

Jordann: Definitely. It actually doesn't start with the down payment. To figure out how much you actually need to put down on your home, first you need to decide how much you can afford per month. You're looking to buy a home and you want to know "How much can I afford to spend on housing per month?" That should form your decision on how big your down payment should be. Most personal finance experts recommend that you don't spend any more than 35% of your net monthly income on housing. Ideally, you wouldn't spend more than 30%, but there's a little bit of wiggle room in there, depending on what market you're in. In some markets, that would just be impossible. Start there, take 30$ of your net income, and then, once again, use these mortgage payment calculators to figure out what you can afford per month as a monthly mortgage payment.

Don't forget to include property taxes, insurance, and utilities in that calculation, because it should be all of your housing costs, not just the mortgage payment. A lot of renters run into this problem, where they think their only expense is going to be the mortgage payment. That is not true at all. There's lots of other expenses that go with it and a good mortgage payment calculator online will be able to accurately estimate those expenses.

Brittany: That's a fantastic point [crosstalk 00:12:33]. No, go ahead. I'm so sorry.

Jordann: That's okay. From there, you'll be able to see what your maximum purchase price would be, based on that monthly payment, and then you can play around with the different down payment sizes to see how that affects your maximum purchase price. If you have your heart set on fitting into a very expensive neighborhood, you're probably going to need to save the full 20% in order to keep your net monthly cost at 30%.

Brittany: That's fantastic! You know, I think that's a good point. Something we're talking about a lot kind of with our 4 Percent Club and our readers is budgeting and everything starts with a budget and figuring out what you can afford, so it's nice to see that tie back in with every single thing you're doing, every investment you make has to come back down to your budget.

Jordann: Exactly. The monthly budget is the be-all, end-all of how you build wealth. If the home that you're purchasing doesn't jive with your monthly budget, it's going to hobble you for years, so the most important thing is to make sure that the down payment that you save and the purchase price that you choose is going to end up giving you an affordable monthly housing cost.

Brittany: Right. I think, from what you're saying, I'm taking that you know that influences how much time you need to save. If your goal is to be in that expensive neighborhood and you need to put down that 20% down payment, depending on your budget, you may need to just be flexible and save for a little bit longer to make that goal a reality for you and just kind of taking in all of those factors of "How much am I making," "How much can I afford," "What is my end goal with this," and "How much time is it feasibly going to take me and can I be flexible with that?"

Jordann: Exactly. If you do the math and you figure out that it's going to take you 5 years to save that 20% down payment and you know that that is just not going to work for you, maybe you consider a different neighborhood, or maybe consider a condo instead of a house, or a townhouse instead of a house. These are important things for you to take into consideration now, before you start saving, rather than 2 or 3 years down the road, when you're totally burnt out and still not at your goal.

Brittany: Right. Coming back to that budget, make sure you know what you can afford and be able to adjust those expectations to kind of find your happy medium.

Jordann: Exactly.

Brittany: I know, on your blog, you put a lot of effort into saving for your goal $40,000 for a down payment, and that was kind of a real focus when you were in the thick of it. You managed to save up enough to purchase a home ... about how long did it take you, just under a year and a half? How long did it take you to actually save up that down payment? I know you didn't reach the whole $40,000, which is something we can touch on in a minute, but how long, exactly, did it take you to reach a down payment you were comfortable with?

Savings Timeline

Jordann: It took me right around a year and a half and I ended up saving $33,000. Now, like you said, I didn't get to my goal of saving $40,000. My original goal was $40,000 to buy a house, costing me around $315,000. Based on my math, I knew that that would work out where I could afford that and it would work with my monthly budget, so I could still save. The reason I didn't get to that amount was because I ended up buying a home for $270,000, so I didn't need that full $40,000. I was still able to make a 10% down payment and have enough left over for closing costs and still make my monthly budget align, so that's sort of how that all worked.

I think a year and a half to save $33,000 is a fairly aggressive time frame, especially if you're not an experienced saver, so remember that I'm an experienced saver. I paid off $38,000 in 2 years, then I built up a $10,000 emergency fund in 4 months, and then after that, I decided to tackle the same for a house. The way that my budget is set up, a large amount every month is available for me to allocate to savings. Now, that would not be the case for someone who is not as aggressive as me. I would say the vast majority of the population is not as aggressive as me. I'm a little bit crazy.

Brittany: You should help me with my diet.

Jordann: Yeah. It would ramp up, right? If you're a new saver, and you can only put $500 a month away, that's a starting point. It's a great starting point, and you can build off it from there.

Brittany: Right. Seeing that that is kind of a relatively aggressive or quick time frame, how can aspiring homeowners who maybe aren't as aggressive of savers or as experienced in the saving department begin to calculate their own savings timeline? I know you, from your blog, you saved something like 36% to 50% of your income monthly. Maybe for people who don't save quite that much, how do they begin to calculate that savings timeline to save up for their ideal payment number?

Jordann: The first thing to do is get yourself a spreadsheet. That's what I did. Basically, I had everything mapped out monthly. I'd have my monthly contributions, so if you start at $500, you would map out "Okay. Where's this $500 going to get me by the end of the year," and have a total down at the end of the year. Then, update that in real time as you're making your contributions. Then, with that, you can add in unexpected money, so all that windfall money, which would be any income tax returns that you get, any extra payments that you get, or any paychecks that you get and if you make any money on the side. You can add that all in and if you have it laid out monthly, you can actually add it in on the months that you expect to receive it and that'll give you an accurate idea of where you're going to be at the end of the year, at the end of 2 years, or at the end of 3 years.

The great thing about a savings spreadsheet is that the more you contribute, the closer your date to completion gets. When you start out saving $500 a month, it might take you 4 years to get to your desired goal, but as you up it, month over month, say you've got a raise, and you put that money towards savings, you're going to see, instead of 4 years, it's going to be 3 and 1/2 years and that is incredibly motivating.

Brittany: Seeing that timeline and just depending ... It's a direct correlation between how much you're able to save or any side hustle money or anything else, maybe, you want to shorten that timeline. You dedicate more to that savings and I think it's nice to see those goals kind of align with each other.

Jordann: Exactly. That actually was a big motivator behind me starting to freelance write on the side in the first place. It's because when I was back paying off my debt, I was trying to look for ways to earn more money. That was a great place to start and now the only reason I can save %50 of my income is because I've built this little side hustle that's actually not part of my budget, so all the money that comes in goes to my savings and allows me to achieve some pretty great results.

Brittany: That's fantastic! That was actually my next question is kind of what steps you took to save for your down payment and where those incredible, aggressive experienced savings were coming from and it comes a lot from just the fact that you're an experienced saver and you have other income sources as well contributing to that that you kind of dedicate directly to those savings.

Jordann: Right. It's not just me, too, it's my husband. We also have combined savings, my husband and I. Together, we were putting about $1,000 a month from our joint net income towards the house fund. Then, I was also freelancing, which would bring in between usually %25 to %50 of my gross income and all of that would go to savings, besides what I would set aside for taxes. Then, any extra paychecks that I got and income tax returns and even birthday money and stuff like that, I would put that all into savings and it yields results, if you stick with it.

Brittany: I know, you are living proof that that savings plan has been incredibly successful for you, just in terms of the sheer timeline, the shortness of that timeline that you've been able to achieve all these things.

Jordann: The interesting thing about it is that I'm still really happy. It's not like I've deprived myself. I'm not sitting home every night. I've just massaged my budget over the years, so that there's a large amount of money going to savings, but I still prioritize the things that I care about like friends and family and all sorts of things, so I'm not suffering my way to home ownership. I'm still living a pretty fulfilled life, even though I work a lot.

Brittany: What you said is important, again, it comes down to your budget needs to align with your lifestyle and if you're able to put away those kinds of savings and still have the lifestyle that you want. That's the ultimate goal and it's about knowing where your reference point is, the numbers that you're working with and kind of adjusting it to work with your lifestyle and what you want, ultimately, all of your goals.

Jordann: Exactly. Your budget is there to help you achieve the life that you want. It's not keeping you from living the life you want.

Brittany: That is a great thing to say. That's really insightful.

Savings vs Investment Account

Talking a little bit more about your personal down payment and all the savings that you were doing, where did you keep that money? Was it in a savings account? Was it in an investment account? Where did you keep that money and why did you choose to do it that way?

Jordann: I kept all my money in a savings account, earning very little interest rates, which hurt my heart my heart to not have my money working for me, but because my time horizons or my projected completion date of this goal was under 5 years, I didn't feel comfortable investing it, because I wasn't comfortable with the time it would take for that money to recover if we were to go through another corruption in the stock market, so I did just keep it in a straight up savings account. That's what I would recommend for anybody whose looking at saving the money and spending it within 5 years.

Brittany: Kind of short-term, within 5 years, definitely a savings account, and maybe if it's more long-term, you can afford to have an investment account, just because it has time to recover if anything were to happen there, like clunky market.

Jordann: Yeah. Exactly.

Brittany: You don't want to get wiped out if your goal is short.

Jordann: No. That would be awful to finally find the house that you want and then have your home down payment fund just go in a free-fall because decided to correct that week. I was not interested in that.

Brittany: Right. I think that's good to know. I'm not sure. Not everyone who's dabbling in savings is super versed in investments yet, or just in general. There's a lot to go into it, so I think it's good to have a reference point of short-term goals, kind of play it safer, and then if you have long-term, it's kind of a safe enough timeline to afford that risk.

Jordann: Exactly, yeah! If you're saving for retirement or any goal that's more than 5 years out, definitely consider at least investing a portion of your savings, but for anything that you're going to need access to quickly or suddenly, definitely keep it in cash.

Follow Jordann's Timeline

Brittany: Let's say someone, an aspiring homeowner, who's listening right now, wanted to kind of follow a similar timeline that you do. This kind of goes back to just your basic savings philosophy, but what steps would those people need to take to save up for their down payment as quickly as you did? Where can they find those cuts? What do they need to do?

Jordann: It seems like it didn't take me very long to save up for my down payment, but I like to joke that I've been preparing for home ownership since I was 21 and started paying off my debt, because that sort of really where my journey began. Paying off your debt is definitely, in my opinion, a non-negotiable first step to saving for a house. Having your debt taken care of and paid off will not only maximize your available money so that you can actually save faster, it will qualify you for a bigger mortgage, because you're not going to have debt obligations, it will improve your credit score, so you can qualify for a better mortgage interest rate, and it also just is a principal of sound financial management. If you're going to be a homeowner, you're going to need to be responsible for your finances. Paying off your debt after becoming a homeowner would be much more difficult, so that's definitely the first step that you should take to save your down payment is actually pay off your debt.

The next thing that I would do would be to build an emergency fund and this can be considered sort of like a home down payment dry run. An emergency fund, for those that don't know, is basically just a cushion of cash that's there in case something bad happens, and it's usually defined by most experts as between 3 and 6 months of your basic bare living expenses. If you can save that up, you're probably going to be pretty successful with saving for your home down payment. That's what I did. After I paid off my debt, I saved up $10,000 and that's just there in case I total my car again and break my wrist again and I can't work. It's a good thing to have, because when you buy a home, the roof's going to leak and the basement might flood and it's just good to have that money on hand, so that would be the second step would be to build up your emergency fund. Then, you can start to save for your down payment.

Hopefully, by the time you get to this point, you're already going to be a master budgeter, you're going to have a really good handle on your spending, you're going to have lots of money already in your budget that is designated to go towards savings. It'll help you just sort of glide into that home down payment savings really easily, because you're already going to be very good at it.

Brittany: That's a fantastic answer, just kind of making sure that you've already built your financial foundation, in that you are kind of versatile in your money management so you're not going in blind, just starting from zero, so you've got all of those goals kind of in place and you know where to take it from there.

Jordann: Exactly. You've got the building blocks squared away, then you're prepared to tackle the big goal, which is home ownership.

Brittany: Yes. I have another couple of questions. Should aspiring homeowners be flexible with their savings plan?

Jordann: It depends on what you define flexible as. I'm a big fan of setting goals and shouting them loud and proud from the rooftops, because it encourages you to actually meet them. I think that's a big reason why I have been able to pull off the things that I pulled off because I was blogging about it, so it was very public. I wouldn't be flexible with the goal, because I feel like maybe, if you're too flexible with it, you're not going to get anywhere. That said, you should totally allow your goals to change as your priorities change.

In my case, I had a goal to save $40,000 and I was going to buy a house that was worth $315,000 and that was my plan. Then, 6 months before I was set to reach that goal, my realtor called me and said she had a house for me to come see and it was much less expensive, so even though I hadn't met my goal yet, I allowed myself to change my priorities because this new opportunity had come along. Definitely be flexible if your priorities change, but don't let yourself off the hook too easy about actually getting down and saving the money.

Brittany: Fantastic. What was, for you, the most challenging part of saving for your down payment.

Were there any challenges you had to grapple with?

Jordann: The most challenging part of saving money is that it is boring. It takes a long time, and it is incredibly boring. Paying of debt is exciting; saving money is just the most ... it's like watching paint dry. You make a contribution, and you update your savings spreadsheet, and that's it. That's all you get. Sticking with it is definitely a big challenge. I was fortunate in that I was really motivated to become a homeowner. I really wanted to be a homeowner and that's basically the only reason that I stuck with it. Caring about it enough to not give into temptations can be pretty tough.

Brittany: ... got to have that goal set, got to be patient, have to stay motivated for that goal.

Jordann: Exactly. Having clearly defined goals really helps with that. Otherwise, it can be really easy to just say yes to dinner with friends one week, then upgrade your iPhone the next week, and then you get to the end of the month and you haven't saved any money.

Brittany: ... the rabbit hole ...

Jordann: Yeah, definitely.

Brittany: Well, those are the questions I had. Thank you so much for those thorough answers. Is there anything else that's critical or any advice that you have for those looking to start saving for a home other than what we've covered?

Jordann: My biggest advice would be do as much research as possible. Do not underestimate the power of the internet and financial modeling software. Don't be afraid to tinker around with the numbers and really figure out what you can afford and maybe don't listen to your parents' advice, because they purchased their homes in a very different market than we're in today and definitely save the largest down payment that you can afford. You'll just be happier. You'll have more money at the end of the month and you'll have more equity.

Brittany: That's fantastic! Thank you, again, so much, Jordann, for taking the time out and sharing your strategies and your experience with down payments and investing in a home. Everyone who's listening, be sure to check out her blog, she's got so much fantastic stuff out there just all across the board, "My Alternate Life," so check out Jordann. Thanks so much for being here.

Jordann: Thanks so much for having me! This was super fun!

Brittany: Okay. Thanks, Jordann.