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Where to Stash Your Down Payment if You Didn't Buy a House This Year

A guide for would-be buyers who are putting off the hunt for their dream home and considering how to gauge risk, evaluate time horizons and cope with low yields

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With home prices climbing to a record, this year's housing boom left some hopeful buyers frustrated, discouraged and stuck with a big lump sum of cash.

Home buyers typically save between 5% and 20% for a down payment, with extra for closing costs. This year, many would-be buyers were met with bidding wars, stumped by historically low inventory or priced out of red-hot locations.

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Now, they are sitting on thousands of dollars they had otherwise earmarked for a down payment on a house, and they are wondering where to stash the cash until the market cools off or their dream home becomes available.

This question is particularly tough because of the low rates on savings accounts, paired with inflation pressures. Yet with an expensive stock market and a continuing pandemic, many savers are also loath to invest their hard-earned down payment in the broad market. Cashing out investments can also come with tax consequences.

Here's what to consider when parking a down payment for the season.

Know your time horizon

Taking a break from a house hunt can mean different things for different people. Some wait six months, others a few weeks, others an entire school year. Knowing when you might need to access this cash—and how much you will need to access—will help determine where to stash it.

"Money has to be invested or put somewhere in accordance with your time frame," said Charlotte Geletka, managing partner and owner at Silver Penny Financial. "Time frame is more important than yield."

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If you have yet to find the perfect house but want to be able to move quickly should it pop up on the market, you will want to keep your down payment accessible and liquid, Ms. Geletka said. That means keeping 100% of the down payment in a savings account.

Ms. Geletka also recommends keeping that down payment separate from your other savings—even at a different bank—so it won't be eaten up by an emergency, or everyday spending.

Holding off on a home purchase for 12 months might feel demoralizing, Ms. Geletka said. But waiting for housing prices to cool, the perfect house to come on the market or some household timing and life issues to settle can all be net positives.

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As Blair duQuesnay, a financial planner at Ritholtz Wealth Management, points out, there is another upside to waiting longer to buy: You can grow the original amount by ramping up your savings.

"If they're still earning, that could add to the down payment," she said. "And the low interest rates we're all complaining about? That's

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how you're going to get a low mortgage rate."

For savings accounts with higher yields, look for products that pay a little more but come with high minimum-deposit requirements.

The size of your down payment matters

"The more significant the amount of money, the more opportunity to make money," said Nina O'Neal, partner and investment adviser with AIM Advisors.

For this same reason, however, Ms. O'Neal said she is seeing clients working with higher sums who are less willing to simply put that money in a savings account.

"We have a lot of clients who are concerned about inflation and they're hesitant to leave the money in cash," she said. "If someone is looking to wait for 12 to 18 months, that inflation factor weighs a little more heavily, because the home they want may require more funds."

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> — Nina O'Neal, partner and investment adviser, AIM Advisors

Ms. O'Neal's clients who are hesitant to leave the money in cash have instead opted to invest a portion of their down payment, considering again how to best manage volatility and time horizon.

The median U.S. home price was $359,900 in July 2021, according to the National Association of Realtors, up 18% from a year earlier. In 2020, the median down payment was 12% for all buyers ($43,188), 7% for first-time buyers ($25,193), and 16% for repeat buyers ($57,584), according to the Home Buyers and Sellers Survey.

Divide the down payment into chunks

Those contemplating where to put larger sums of money have more options to split up the down payment, said Sahil Vakil, founder of MYRAwealth.com. Splitting up the payment allows clients to stash one portion in a savings account, where it stays accessible and liquid, and put another portion in a money-market fund, bonds or another low-volatility investment strategy.

Mr. Vakil recommends thinking in three-month increments. If you need the funds in three months, keep 100% of the down payment in savings. If you need it in six months, put 75% in savings and 25% in investments, and if you will withdraw in nine, then keep half in savings and half in investments.

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The allocation can also adjust depending on an

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individual’s risk tolerance and other needs, said Ms. duQuesnay. She recommends that those looking at a time horizon longer than six months keep at least 80% in cash, allocating 15% or 20% of their down payment to investments.

“That’s only for people who just can’t take it and are willing to accept the downside, should that result,” she said.

Should someone want to wait longer than 12 months, this could enable them to put 100% of the down payment in a market fund with low volatility, Ms. O’Neal said. The longer time horizon is crucial to this strategy, she said. If a buyer wanted to split the down payment and invest a portion in the market, they shouldn’t do so for a period shorter than six months, which could then lead to troubles come tax time.

Know how much risk you can tolerate

Mr. Vakil said some of his clients are eager to chase yield, wanting to invest as much as 100% of their down payment and leave none of it sitting in a savings account. These clients are putting their down payment in municipal bonds, he said, sometimes even adding a municipal-bond exchange-traded fund to their portfolios for greater diversification.

Those with a high appetite for risk are looking for an even greater yield by pursuing risky investments such as cryptocurrency and SPAC—or special-purpose acquisition company—funds.

“These are the clients who say, ‘I can’t just get 2% on this. I need more,’ ” he said. “These are our forward-looking investors who say, ‘Well, our cash may not grow, but if this SPAC blows up…’ ”

Alternative investments come with greater volatility, which might eat away at a significant chunk of the saved down payment.

Market investments come with their own tax considerations, Mr. Vakil said, so he advises clients to keep long-term and short-term capital-gains taxes in mind, or work with an adviser to learn about how tax-loss harvesting can offset trading gains.

“Taking on more risk can extend your time frame,” Ms. Geletka said.

Although it might not be satisfying, where to put a down payment is ultimately more about playing defense than offense. In a low-interest environment like the one we are in, there aren’t many options.

“There’s no free yield,” Ms. Geletka said.

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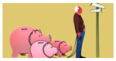

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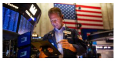

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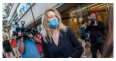

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