Fannie Mae

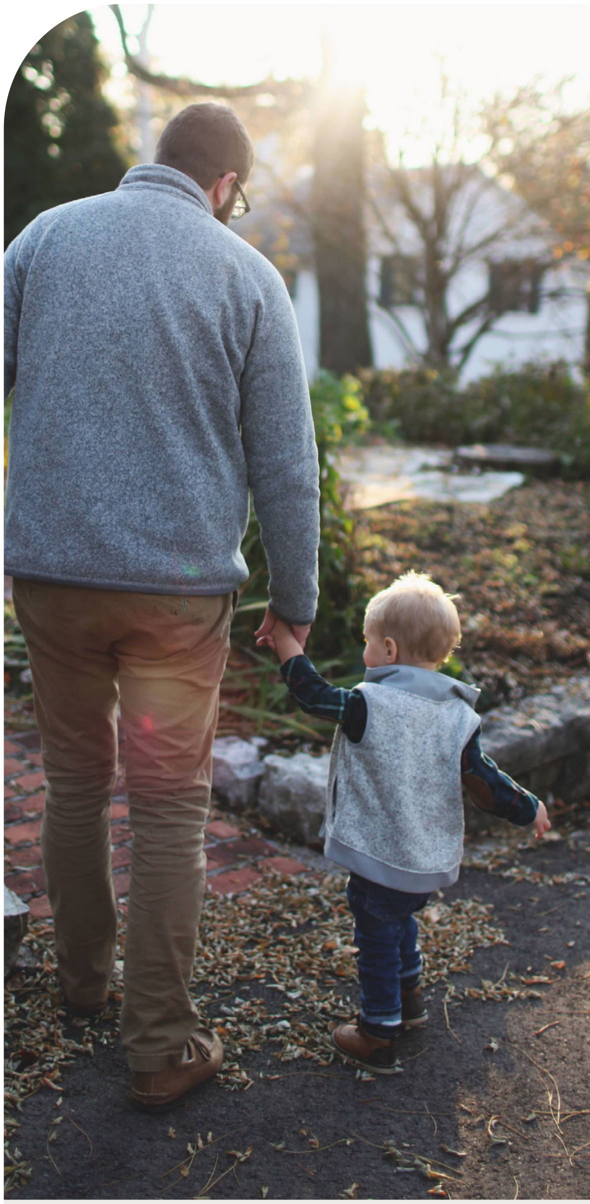
SMART HOMEBUYING

Tips on Building Your Cash Reserves

What are "cash reserves?"

Cash reserves are any funds that you can access quickly to cover your mortgage payment and other housing related expenses. Funds for cash reserves can come from:

- Money in savings and checking accounts
- Investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts
- The amount vested in a retirement savings account
- The cash value of a vested life insurance policy



Why are cash reserves important?

Having a healthy amount of available cash empowers you with financial flexibility. The more cash reserves you have, the less you'll need to rely on credit or loans. Owning a home is a big investment, so it's important to build up your cash reserves *before* you start the homebuying process.

Creating a budget

Making a budget is the first step in knowing how much home you can afford. First, make a list of your expenses. Don't forget about bills that happen once or twice per year, like auto insurance, annual vet visits, and vacations. Subtract your expenses from your net income, and that will give you an idea of how much more you can spend on housing costs.

Know your PITI

When estimating your monthly mortgage payment, include the following:

P	I	T	I
Principle payment	Interest payment	Taxes on the property	Insurance on the home

Plus, don't forget to add in other common housing expenses, such as mortgage insurance and association fees.

28% and 36% rules

Now that you're more familiar with your finances, see if you pass the 28% and 36% rules.

The 28% rule says that your mortgage shouldn't exceed 28% of your gross income.

28% Rule Formula: **Gross Monthly Income X .28 = Maximum Monthly PITI**

The 36% rule, also known as your debt-to-income ratio, says that your monthly debt shouldn't exceed 36% of your net income. Debt includes your mortgage and any car payments, credit card debt, or loan payments. Don't include expenses like utilities.

36% Rule Formula: **Net Monthly Income X .36 = Maximum Monthly Debt**

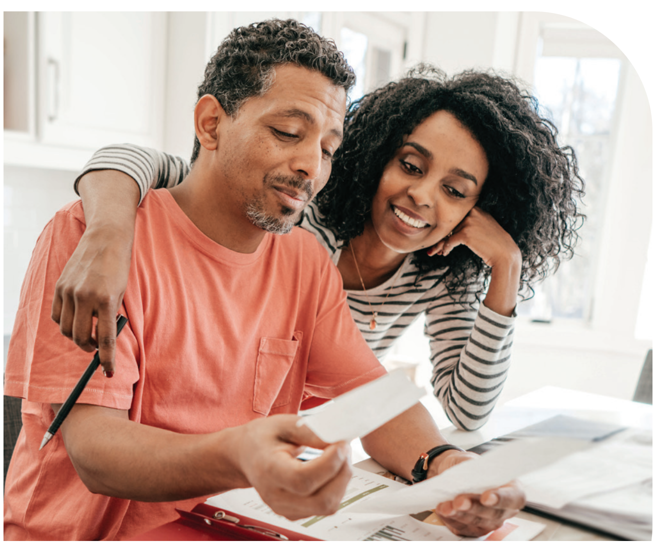
Many factors can affect these numbers, so only use these rules for a general idea of home affordability.

Prepare for emergencies

A good rule of thumb is to have 3-6 months of household expenses saved. This will help keep you prepared in case of:

- A loss of employment
- Unexpected medical expenses
- Large home repairs
- Vehicle repairs or purchases

Preparing for emergencies also includes making smart investments. Opting to pay a few hundred dollars on a home inspection may save you thousands in repair costs down the road.



Review and refine

When you finally get into your new home, don't stop budgeting. Keep monitoring your expenses each month and trim any unnecessary costs. Cutting out a daily $5 expense can save you nearly $2,000 each year.

Plan for the future

Think about which major expenses could be coming your way in the next few years, such as day care, college payments, or medical bills. Put away a little cash each week or month to get a jump on these expenses. A great way to prepare is to use the 50/30/20 rule. Use your net income to calculate:

- 50% for needs
- 30% for wants
- 20% for savings and debt repayment

Plan for maintenance

In your budget, include a plan for routine home repairs and maintenance, so when unexpected expenses arise, you won't need to draw from emergency funds.

Talk to your lender for more ideas on building your cash reserves.