THE HIDDEN COSTS OF BUYING A HOME

A REAL ESTATE EBOOK FROM

The CE Shop
INNOVATING CAREER EDUCATION

THE HIDDEN COSTS OF BUYING A HOME

BUYING A HOME OFTEN BEGINS WITH A CALCULATION BASED ON TWO KEY QUESTIONS:

1. How much can I afford to put down?
2. How much can I afford to spend on my mortgage each month?

An online mortgage calculator is often a homebuyer's first stop as they embark on the hunt for their perfect home, and for good reason — it's an effective tool for determining their budget. But what mortgage calculators often don't show are the hidden costs of becoming a homeowner, from private mortgage insurance to the annual cost of repairs.

As a real estate agent, it's your job to educate your clients on the homebuying process and give them a realistic sense of what to expect — especially when they're first-time homebuyers. That includes preparing them for the costs they might not anticipate so they can choose the home that best fits their needs and their budget.

In this ebook, we'll walk you through a few hidden costs that are likely to come up as your clients buy a home. They fall into two categories: expenses incurred during the homebuying process and expenses as a homeowner.

HOMEBUYING PROCESS EXPENSES

Earnest Money

Some homebuyers might be surprised to learn that they have to hand over a small amount of money before they even close on their new home. That initial payment is called earnest money or a good-faith deposit, and it's intended to show the seller that the buyer is serious about purchasing the property.

If the sale goes through, the earnest money is applied toward the buyer's down payment. If the offer falls apart, the earnest money may be refundable, but only if it falls through due to a failed home inspection or other contingencies outlined in the contract. If the buyer simply decides they no longer like the house or backs out for a reason not listed in the contract, they're unlikely to get their money back.

The amount of earnest money that's required depends on your market, but it's typically around

1-3% OF THE SALE PRICE,

Rocket Mortgage says. The money is usually held in an escrow account until the deal is complete.

HOMEBUYING PROCESS EXPENSES

Closing Costs

Buying a home comes with a long list of fees. On average, a homebuyer's closing costs (including taxes) totaled $6,087 in 2020, Business Insider reported. Closing costs are separate from the down payment, but in many cases, they can be rolled into the cost of the loan.

COMMON CLOSING COSTS INCLUDE:

- Application fee
- Loan origination fee
- Prepaid interest
- Title search and insurance
- Appraisal fee
- Settlement/closing fees, recording fees, or lawyer's fees
- Land survey charges
- Property taxes

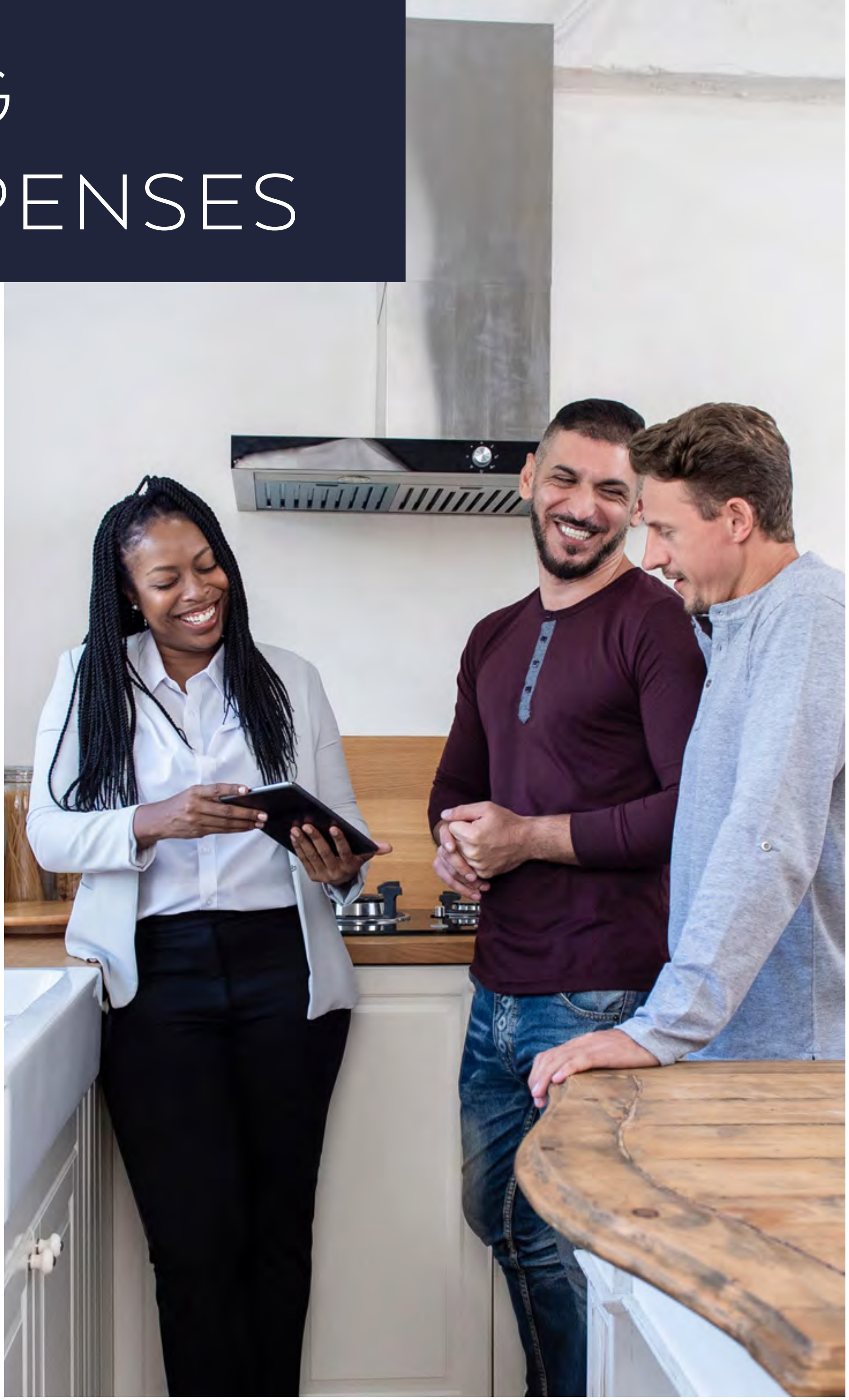
HOMEBUYING PROCESS EXPENSES

Property Taxes and Homeowner's Insurance

Once your client purchases a home, their monthly mortgage payments will typically include P&I, which stands for principal and interest, as well as property taxes and home insurance.

The monthly tax and insurance payments are usually put into escrow, which is a legal concept that provides a way for a third party to hold money on behalf of two other parties. Each month, a portion of the mortgage payment is placed into an escrow account, and that money is used to pay bills on the homeowner's behalf.

The cost of property taxes and home insurance varies widely by location, and both could increase over time.



HOMEOWNER EXPENSES

Private Mortgage Insurance

Private mortgage insurance, or PMI, is separate from homeowner's insurance. It's a form of insurance that's required for conventional loans if the buyer is purchasing a home with a down payment of less than 20%. This insurance protects the lender if the homeowner fails to make payments on their loan. (It does not, however, protect the homeowner.)

It's typically paid through a monthly premium, which increases the amount the buyer is paying per month for their home.

PMI GENERALLY COSTS BETWEEN

½–1%

of the entire loan on an annual basis, *HuffPost reported.*

HOMEOWNER EXPENSES

Home Repairs

First, the dishwasher needs to be repaired. Then the furnace has to be replaced. Sometimes the most expensive part of being a homeowner is the repairs and upkeep.

Homeowners should consider setting up a home repair fund with the expectation that they will spend **ABOUT 1-4% OF THEIR HOME'S VALUE** on repairs each year, State Farm recommends.

For example, the owner of a home valued at $200,000 would budget $2,000 to $8,000 per year for upkeep.

It might also help to learn about how long each part of a house and the various appliances therein are expected to last, from its roof to its windows, to better map out when repairs or replacements will be needed.

HOMEOWNER EXPENSES

Utilities

Don't let your client forget about the utilities that they will have to pay for in their new home, including electricity, water, natural gas, trash, and internet. And if they're moving into a bigger home, they might be surprised to see that some of their bills are higher than before.

DID YOU KNOW?

In 2019, the average electricity bill for residential customers was

$115 PER MONTH,

the U.S. Energy Information Administration says.

HOMEOWNER EXPENSES

HOA Fees

Some neighborhoods have a homeowners association (HOA), which is often responsible for general upkeep such as trash removal, lawn care, or snow removal. The HOA might also maintain shared spaces, such as a pool. If your client is purchasing a home in a community where HOA membership is required, they will need to pay fees on top of their mortgage payments.

HOA fees can range anywhere between $100 and $1,000 per month, but the average is somewhere between

$200 - $300

PER MONTH,

Investopedia says.

KNOWLEDGE IS POWER

It's incredibly important for homeowners to be fully prepared for the process of purchasing a home and the costs that come with it. After all, buying a home is the largest purchase that most people will make in their lifetime.

As a real estate professional, that's where you come in! Arm your clients with the knowledge from this ebook to help them make the best financial decision for themselves, and you'll be setting them up for success as homeowners.

ABOUT US

Founded in 2005, The CE Shop has become the leading provider of online real estate education. With industry-leading pass rates and support from Pre-Licensing through CE, our students are better prepared to set themselves up for success.

Our ever-expanding course catalog of Pre-Licensing, Exam Prep, Post-Licensing, and Continuing Education products are trusted throughout the industry and offer agents across the country the education they rely on.

With products available in all 50 states and D.C., we're driven by a desire to constantly improve, both for ourselves and our students.