

Homeownership: **UNDERSTANDING THE COST**

Making the transition from renter to homeowner is exciting and can be less stressful if you're financially prepared.

Even if mortgage principal and interest payments are comparable to your rent, you also need to pay property taxes, homeowners insurance and possibly homeowner association dues. Beyond those costs, you need to have funds available for maintenance and repairs. Allow yourself some time to adjust to your new housing costs and to make a financial plan before spending on extras such as decorating and home improvements.

Financial preparation for homeownership

First-time buyers typically focus on gathering funds for a down payment and closing costs, but when you buy a home, you should keep some cash reserves available for emergency expenses and continue to set aside money from each paycheck to rebuild your savings.

Your financial plan should include a section for housing-related expenses, including:

- **Property taxes.** Most people pay their property taxes through an escrow account collected with their principal and interest payment, but it's also possible to pay them directly. Either way, these taxes must be part of your budget.
- **Homeowner's insurance.** Your basic homeowner's insurance policy, a mandatory policy required by lenders when you finance your home, covers damages to your house and your personal property. However, you could need supplemental insurance to cover floods, earthquakes, sewer back-up and other potential risks depending on where you live. If you have jewelry, expensive computer equipment or other valuables, you could need supplemental insurance to cover them fully.

Financial Planning to Make it Your Own

One of the joys of owning a home is to make it your own with furniture, paint and decorative items.



Saving money for these items or including money in your monthly budget to finance these purchases will make it easier and more enjoyable rather than stressful to create the home you want.

Planning ahead may sound a little dull, but the reward of comfortably affording to do as you please with your home is well worth the effort.



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- **Utilities.** As a renter, your utilities may have been included or you were limited to just an electric bill. Now your utilities could include gas, electricity, water, sewer and trash removal as well as cable and Internet service.
- **Homeowner or condo association fees.** Make sure you understand any mandatory fees and what they cover. While it's typical to cover common area maintenance, some association fees include gym membership, a swimming pool, trash collection, snow removal and even some utilities, which could end up saving you money if you don't have to pay for those items yourself. Be aware that some associations can collect a special assessment for a major project, so ask if there's a chance that a special assessment would be required.

Maintenance budget

Now that you can't just call your landlord, you'll need to maintain the interior and exterior of your home, including any landscaping. How much you'll need to spend on things like lawn and garden care, window washing, furnace filters and possibly snow removal varies according to several factors.

Financial experts recommend setting aside one to three percent of the purchase price for maintenance. For example, if your home cost \$250,000, you should save at least \$2,500 annually for maintenance or about \$200 per month. If you don't use that money one year, it can be saved toward a future major repair or renovation.

However, your individual financial plan should take into account the age and size of your home, the condition, the durability of the materials used in your home, the age of your appliances and systems and your climate. The maintenance budget for a relatively new one-bedroom condo should be vastly different than the budget for an older, larger single family home even if they both cost around \$250,000.

One way to keep maintenance costs as low as possible is to take care of problems immediately before they lead to bigger issues. For instance, ignoring a small leak can result in rotted wood flooring and mold, both of which are costlier to remedy than a leak.

You can also keep maintenance costs in control if you learn how to do some small tasks yourself and know when to bring in a professional. A home warranty can provide some financial support for repairs and a service contract on your furnace or other systems can also ensure regular inspections and maintenance will be done to increase their longevity.



Home Inspections

One reason a home inspection is such an essential part of buying your home is so you can get expert maintenance advice.

Your home inspector can tell you the age of your hot water heater, furnace and refrigerator and tell you the approximate life span of those appliances so you'll have an idea of when they might need to be replaced.

An inspector can also explain that you could need to stain or paint your wood siding and deck regularly, caulk your windows, re-point your bricks, clean your gutters and inspect your roof.



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