

# 6 Hidden Costs of Homeownership

Homeownership is a big part of the American Dream. But buying, owning, and maintaining a place of your own may come with unexpected costs.

Most people focus on the financial benefits of homeownership. Your monthly mortgage payment may be the equivalent of (or sometimes even less) than your rent. As you pay your loan, you lower the principal balance and increase your equity. Many homes increase in value over time.

This is why traditional wisdom says that renters “throw away” money. They’re paying the landlord’s mortgage without building equity.

But this doesn’t necessarily mean that homeownership is right for you.



## 1. Property Taxes and Insurance

Depending on where you buy, property taxes and insurance costs can increase your monthly payments significantly. Property taxes for a median-priced home varies dramatically across the country, but it can be hundreds of dollars a month depending on where you live.<sup>1</sup> Homeowner’s insurance can easily add \$100 or more a month.<sup>2</sup> Taxes and insurance costs also change frequently. To help with this, see if your state offers homestead exemptions that lower the homeowner’s tax burden.



## 2. Private Mortgage Insurance

When you purchase a home, you need to save money for a down payment. Generally, having a substantial down payment is ideal. The higher the down payment, the less your monthly mortgage payment will be. If your down payment is less than 20 percent of the home’s value, you may be subject to private mortgage insurance (PMI). This type of insurance protects the lender if you default on your loan. Your lender may require you to pay PMI either by bundling it into your monthly mortgage payment, having you pay upfront during closing, or a combination of both.



## 3. Other Closing Costs

Many first-time homeowners are taken aback by closing costs. These costs generally consist of application fees, appraisal fees, attorney’s fees, and much more. The fees vary based on a number of factors, but they will likely total thousands of dollars. It’s possible to get a loan without closing costs, but in these cases, the lender often raises the interest rate on the loan. This approach can actually be more expensive in the long term.



## 4. Home Maintenance

Owning your own home means you’re responsible for everything—including mowing, trimming, weeding, and repairs. A general rule is to have at least one or two percent of the home’s value set aside for maintenance. But even this sum doesn’t cover major repairs.



## 5. Utility Bills

Living in a small apartment keeps your utility bills down simply because you don't have much space to heat or cool. When you get your first utility bills, you might be in for a shock. Depending on the home's age, your heating or air conditioning unit might be older (and less efficient) than the one in your rental. Ask the sellers about their utility bills before you buy so you can plan accordingly.



## 6. Unpredictable Housing Market

A home is a growth asset for some, but it can be a ball and chain for others. Housing markets fluctuate. Housing values and mortgage rates shift over time. Common wisdom says that you should stay in a home for at least five years. Otherwise, it likely won't have appreciated enough to offset your realtor commissions, closing costs, and more.

# Is Owning a Home Right for You?

It depends on your current financial situation and long-term goals.

Putting together a budget is one of the best things you can do to help make this decision. Understand what you spend each month and what you can afford.

Also, consider your goals in life. If you plan to live in one place for a while, then buying a home could be a great decision. If you don't know where you'll be in five years, you might want to keep renting.

Create a plan before jumping into the home-buying process. If you need help with this, talk to a financial professional.

## Sources

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