



# ***Deciding to Buy a Home***

## ***The Cost of a Home***

# ***Deciding to Buy a Home: The Cost of a Home***

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David P. O'Brien Ph.D.

There are many costs involved in homeownership. Some costs happen only once when you make the purchase while others continue as long as you own the home.

## **One-time Expenses**

**Earnest Money.** In most home purchases you will need to have cash available to start the purchase process. This initial expense is called earnest money and is offered as proof of your intent to complete the deal. If you do not continue with the purchase you would very likely forfeit this, unless there are contingency clauses in the purchase agreement such as inability to obtain financing, sale of an existing house or unsatisfactory inspections.

**Closing Costs.** When you start the process of obtaining the mortgage you will agree to pay for a number of expenses. You pay these expenses at closing. Closing is the meeting where you sign all the legal documents to own and pay for the property and the costs associated with making the purchase. At closing, you will make a down payment on the house, part of which is covered by your earnest money.

Usual closing costs include fees for loan origination; a survey of the property; appraisal of the property's value; a title search and title insurance to make sure there are no claims against the property and that it is legally owned by the seller; and, for recording the deed and mortgage with the county recorder. There also are

fees for a credit check and attorney representation in the purchase process. You may pay points (each point is one percent of the loan amount) to the lender for making the loan to you, and you may pay for the costs of required home inspections. There may be other expenses for document filing, notary services and your initial share of taxes and insurance to be placed in an escrow account.

The details of the closing process and expenses involved are discussed in detail in the Home-Buying Process module.

**Other Expenses.** After closing, there may be additional expenses such as moving household goods, landscaping and the cost of appliances, fixtures and window coverings not included in the home purchase. There also may be initial costs for utility services such as security deposits or connection fees.

## **Recurring Expenses**

Recurring expenses begin with the monthly mortgage payment but there are other monthly and annual expenses to consider.

**Operating Expenses.** You will have normal operating costs for utilities such as water, sewer, trash collection, electricity, telephone and possibly natural gas. There may be monthly expenses for optional services such as Internet access and cable or satellite television.

**Additional Insurance.** You may need additional

insurance to protect expensive personal property items such as a computer, home theater system or piano. You should be aware that homeowners insurance does **not** cover losses due to floods. If you live in an area that is at risk for flooding you will need to consider buying flood insurance that covers loss to the house and a percentage of the personal property in the house.

**Association Dues.** If you live in an area where there is a homeowners association you will be required to pay association dues. The dues are used to maintain common areas and facilities such as swimming pools, tennis courts and playgrounds. These could be payable on a monthly, quarterly or annual basis.

**Maintenance, Repair and Replacement.** You may have decided to purchase extended warranty or repair contracts for major kitchen and laundry appliances. These might be paid each year or you can purchase multiple-year coverage at a lower total cost. Evaluate extended warranty and service contracts carefully to determine if they are worth the extra expense.

There may be some occasional small expenses not covered by warranty and repair contracts, such as calling a plumber to unclog a drain. Depending on the age of the house and your skills, you may schedule annual maintenance work on key household systems such as the furnace, air conditioning system and water heater. If you have a wood-burning fireplace, you should have the chimney inspected and cleaned regularly. Preventive maintenance visits may be less costly and inconvenient than emergency service calls on nights and weekends.

Every household system and appliance will eventually need either major repair or replacement. It is a good idea to set aside some money each month for this. This can be part of your general emergency fund or a separate repair and replacement savings account.

*This resource is one in a series on Deciding to Buy a Home which include:*

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