



# Homebuyer University

## Homeownership Costs

### Estimating Homeownership Costs

Work through this worksheet to calculate how much you can expect a home to cost both upfront and then monthly. Then, read up on ways that you can reduce these costs.

#### 1. Choose a Home

Choose a home in a neighborhood that you are interested in with the appropriate number of bedrooms by searching on common home sales sites like Zillow, Redfin or Trulia. For the purpose of the exercise, don't worry too much about selecting the perfect home – just find something “close enough” online. You will come back to this worksheet when you have a specific home in mind. Fill in the table.

Home Location (Neighborhood and/or Address)	Purchase (Listed) Price
(Example) South Shore, 4 bed/2ba, Saginaw Ave	\$225,000

#### 2. Identify Your Other Loan Variables

Fill in the table with two different loan scenarios that you want to explore. For example, you may be curious about the effects of a larger down payment or a shorter loan term. Or you may have found a specific loan product that you want to assess. See **the Example Loan Variables** section in this worksheet for example variables from which to choose if you don't have any specific ones in mind.

Variable	Example	Loan Option #1	Loan Option #2
Loan Term (duration in years)	30 years		
Down Payment (in % of sale or \$)	5%		
Interest Rate (% and type)	6.5% fixed		

#### 3. Calculate the Costs

Practice calculating the upfront and monthly costs of this home for your two different loan options using the table on the next page. To fill in some of the information, you will need to navigate to three online calculators:

1. Go to [smartasset.com](http://smartasset.com)
2. Scroll down to “Home Buying and Refinancing” and open in new windows:
  - a. **Mortgage Calculator**
  - b. **Closing Costs Calculator**
3. Scroll down again to “Taxes” and open in new a window:
  - a. **Property Tax Calculator**

Follow the calculation instructions in the following table to fill in a column for each of your scenarios.

		Loan Variables	Example	Loan #1	Loan #2
		Purchase Price	\$225,000		
		Loan Term	30 years		
		Down Payment %	5% (0.05)		
		Interest Rate %	6.5%, fixed		
		Calculation	Cost	Cost	Cost
Monthly (Ongoing) Costs	<b>Principal + Interest</b>	Online Calculator: Mortgage	\$ 1,351		
	<b>Property Taxes</b>	Online Calculator: Property Taxes	\$ 411		
	<b>Homeowner Insurance</b>	Online Calculator: Mortgage	\$ 104		
	<b>Mortgage Insurance</b>	Online Calculator: Mortgage	\$ 111		
	<b>HOA/Condo Dues</b>	See home listing if applicable	\$ 0		
	<b>Total Monthly Mortgage Payment (PITI)</b>	Sum above lines	\$ 1,977		
	<b>Maintenance</b>	Est. \$100-\$200 a month depending on age of home	\$ 200		
	<b>Utilities</b>	Est. \$120-\$200	\$ 150		
	<b>Internet/ Cable/etc.</b>	Est. \$50-150 or your own experience	\$ 100		
	<b>Total (Average) Monthly Costs</b>	PITI + Maintenance + Utilities + Internet	\$ 2,427		
Upfront Costs	<b>Down Payment</b> Multiply Purchase Price by Down Payment rate	Purchase Price x 0.0X	\$ 11,250		
	<b>Closing Costs, Escrow &amp; Prepays</b>	Online Calculator: Closing Costs	\$ 11,217		
	<b>Reserves</b> 2 months	PITI x 2	\$ 2,702		
	<b>Moving and New Purchases Costs</b>	Estimate \$1,000+ for moving locally	\$ 1,000		
	<b>Total Upfront Costs</b>	Down Payment + Closing + Reserves + Moving	\$ 26,169		

#### 4. Reflect and Adjust

Use the questions below to assess this home and its affordability to you. Refer to the **My Starting Numbers Worksheet** to complete.

1. Compare what you currently have in savings with what you would need to save to afford the upfront costs of purchasing this home. How much more do you still need to save?

Loan	Total Upfront Costs*	-	Liquid Savings	=	Left to Save
Example	\$26,169	-	\$5,300	=	\$20,869
Loan #1	\$	-	\$	=	\$
Loan #2	\$	-	\$	=	\$

*\*Some lenders will allow you to use non-liquid Savings as proof of reserves. If you have sufficient non-liquid savings to cover your proof of reserves, you may consider adjusting the Upfront Cost here to exclude the Reserves amount.*

2. Are you realistically able to save enough money to afford the upfront costs of purchasing this home within the time-frame that you want?

Loan	Left to Save	÷	Months Before Target Purchase**	=	Savings Needed per Month
Example	\$20,869	÷	24 (2 years)	=	\$870
Loan #1	\$	÷		=	\$
Loan #2	\$	÷		=	\$

*\*\*Try a few timelines if you have some flexibility or are not sure.*

Are either of these amounts realistic?  Yes  No

3. If no, what adjustments could you make (or research more about)?  
(E.g. longer timeline, down payment assistance options, potential to finance part of closing costs, less expensive home, build reserves through retirement account, etc.)

# Blank Costs Template

Use this template over and over as you assess different home prices and loan variables.

		Loan Variables	Loan:	Loan:	Loan:
		Purchase Price			
		Loan Term			
		Down Payment %			
		Interest Rate %			
		Calculation	Cost	Cost	Cost
Monthly (Ongoing) Costs	<b>Principal + Interest</b>	Online Calculator: Mortgage			
	<b>Property Taxes</b>	Online Calculator: Property Taxes			
	<b>Homeowner Insurance</b>	Online Calculator: Mortgage			
	<b>Mortgage Insurance</b>	Online Calculator: Mortgage			
	<b>HOA/Condo Dues</b>	See home listing if applicable			
	<b>Total Monthly Mortgage Payment (PITI)</b>	Sum above lines			
	<b>Maintenance</b>	Est. \$100-\$200 a month depending on age of home			
	<b>Utilities</b>	Est. \$120-\$200			
	<b>Internet/ Cable/etc.</b>	Est. \$50-150 or your own experience			
	<b>Total (Average) Monthly Costs</b>	PITI + Maintenance + Utilities + Internet			
Upfront Costs	<b>Down Payment</b> Multiply Purchase Price by Down Payment rate	Purchase Price x 0.0X			
	<b>Closing Costs, Escrow &amp; Prepays</b>	Online Calculator: Closing Costs			
	<b>Reserves</b> 2 months	PITI x 2			
	<b>Moving and New Purchases Costs</b>	Estimate \$1,000+ for moving locally			
	<b>Total Upfront Costs</b>	Down Payment + Closing + Reserves + Moving			

## Reflect and Adjust

Use the questions below to assess this home and its affordability to you. Refer to the box numbers ([x]) in the **My Starting Numbers Worksheet** to complete.

1. Compare what you currently have in savings with what you would need to save to afford the upfront costs of purchasing this home. How much more do you still need to save?

Loan	Total Upfront Costs*	-	Box [H] - Liquid Savings	=	Left to Save
Loan:	\$	-	\$	=	\$
Loan:	\$	-	\$	=	\$
Loan:	\$	-	\$	=	\$

*\*Some lenders will allow you to use non-liquid Savings as proof of reserves. If you have sufficient non-liquid savings (box [I] in the My Starting Numbers Worksheet) to cover your proof or reserves, you may consider adjusting the Upfront Cost here to exclude the Reserves amount.*

2. Are you realistically able to save enough money to afford the upfront costs of purchasing this home within the time-frame that you want?

Loan	Left to Save	÷	Months Before Target Purchase**	=	Savings Needed per Month
Loan:	\$	÷		=	\$
Loan:	\$	÷		=	\$
Loan:	\$	÷		=	\$

*\*\*Try a few timelines if you have some flexibility or are not sure.*

Are any of these amounts realistic? \_\_\_ Yes \_\_\_ No

3. If no, what adjustments could you make (or research more about)?  
(E.g. longer timeline, down payment assistance options, potential to finance part of closing costs, less expensive home, build reserves through retirement account, etc.)

## Example Loan Variables

See below for example loan variables that you can use in your practice calculations. Please note, these represent a snapshot in time and are not meant to guarantee any terms on a loan. They are only included here to give you some ballpark numbers to work with in your practice calculations. Rates were recorded in May 2023.

### Habitat for Humanity Chicago

Purchase Price:	\$175,000-\$225,000*
Loan Term:	30 years
Upfront Costs:	\$4,500 (this includes down payment, closing fees, and reserves; it does not include moving expenses)
Interest Rate:	0%

\*Sales price is capped at 30% of household income.

### Conventional

Purchase Price:	TBD
Loan Term:	30 years (or 25, 20, 15)
Down Payment:	As little as 3%; 20% to avoid PMI
Interest Rate:*	Credit Score    Rate
	760-850            6.193%
	700-759            6.415%
	680-699            6.592%
	660-679            6.806%
	640-659            7.236%
	620-639            7.4782%

*\*Interest rates change all of the time and can vary based on loan size and loan duration. These are approximations only, based on 30-year fixed mortgages, and pulled before the course began.*

## Reducing Homeownership Costs

### 1. Reducing BOTH Upfront & Monthly/Ongoing Costs

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#### A. Choose a Less Expensive Home

- What this is:
- This means shopping for and purchasing a home that is affordable to you – and being purposeful about the downstream cost implications of your purchase price.
- Cost Effects:
- A less expensive home is an overall cost win in that it also reduces the upfront, monthly and total cost of your loan.
    - Down Payment: What you pay here will “count” for more (5% down on a \$200,000 home is \$10,000, but the same 5% for a \$150,000 home is \$7,500).
    - Fees: Most fees are based on a percent of the purchase price.
    - Principal and Interest: A smaller principal means smaller payments and less interest charged overall.
- Guidance:
- Your Homeownership Costs Worksheet will get you started on understanding what purchase price ranges will work for you.
  - Your HUD housing counselor will also help you map about specific scenarios.
  - Your real estate agent can be a good partner in helping you stay within your cost parameters.
- When to Act: Before Closing  After closing and while in the home
- Impact: Smaller  Moderate  Larger

#### B. Seek Down Payment Assistance

- What this is:
- Down Payment Assistance programs provide buyers with money to cover some or all of your down payment and closing fees.
  - They are usually conditional grants. Some are deferred loans, which means you get money now but have to pay it back later. Grants are preferred.
  - They can usually be combined with other down payment assistance options if they are not tied to a specific loan product.
  - Applications for down payment assistance can be separate from your loan and must be done prior to closing. Others are a part of specific loan products.
    - Those that are a part of specific loan products can sometimes come with higher interest rates. Pay attention and run all of your numbers.
  - Some programs require that you apply for assistance directly, others require the lender/counselor to apply on your behalf.
  - Eligibility varies program to program but may include:
    - Being a first-time homebuyer, completion of a HUD class, minimum credit score, income levels, primary residence, or military/veterans/public service status
  - Timing matters also: Not all programs are available at all times. New programs are common.
- Cost Effects:
- Down payment assistance can help reduce both upfront and monthly costs.
  - Big grants may cover your entire upfront fees and down payment requirements, while smaller ones will cover part of them, allowing your upfront cash to stretch further.
  - Any down payment reduces the principal of your loan, which means less direct and interest payback over time.
  - 
  - Be aware, if using assistance that is a deferred loan, it will eventually get added to your overall costs, but usually at a less expensive rate than if you did not use it. Run the numbers to be sure.

- Guidance:
- Your HUD housing counselor is the person to start with. They have databases to search for grants/loans specific to your situation.
  - Lenders will have specific products that they can discuss with you.
  - The Chicago Homeownership Resources section in this binder lists common programs in Illinois.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

## 2. Reducing Upfront Costs

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### C. Make a Small Down Payment

- What this is:
- You may consider some loan products that allow for low or no down payment.
  - The product will have specific guidelines that dictate the minimum down payment, which are typically much lower than most loan products.
  - Some are set as a percentage of the house value – maybe 1-3%, while others are set at a dollar amount.
  - Some examples of these include:
    - US Department of Veteran Affairs, US Department of Agriculture loans (at most banks)
    - FHA-insured loans (at most banks)
    - Affordability loans (at nonprofits and at some banks)
  - Requirements vary. Types of requirements include: being a first-time homeowner, income limits, having a military status or purchasing within a specific area.

Cost Effects:

- If using a no- or low-down payment loan product, it does reduce your upfront costs and can get you in a home quicker, but it also means your monthly and total costs of the loan will be bigger (more principal, interest and possibly fees).

- Guidance:
- Your HUD housing counselor can help you walk through the pros and cons – and then recommend no- or low-down payment loan options.
  - Worksheet #9 Chicago Homeownership Resources lists some affordability loan products in the Chicago area.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

### D. Be Strategic with Closing Fees

- What this is:
- Closing fees are an unavoidable part of a loan, and include everything from appraisals to credit reports to processing fees. There are some ways to reduce these expenses:
  - Compare: Request closing cost quotes from multiple lenders and examine them carefully.
  - Then, based on these comparisons, negotiate and strategize:
    - Ask your lender to match lower closing fees from another lender.
    - Negotiate with your lender at the end of the month (when they are trying to meet their sales goals).
    - With your agent, negotiate with the seller to cover more of the closing costs (typical is 1-3%).
    - As a last resort, you could also work with your lender to finance some of your closing costs (you will pay interest on this and it will mean higher monthly payments).
  - Finally, be diligent: Evaluate and understand every line of your loan estimate – and make sure there are no mistakes or duplicate charges.

- Cost Effects:
- If you are concerned about out-of-pocket expenses up front, this can be an every-little-bit-helps strategy.
  - This does not affect your monthly costs.
- Guidance:
- Your HUD housing counselor can talk through the best strategies for your situation.
  - Your real estate agent can negotiate with the seller for splitting the fees.
  - Your real estate attorney can also help you make sure all of the fees are legitimate and logical.
- When to Act: Before Closing  After closing and while in the home
- Impact: Smaller  Moderate  Larger

### 3. Reducing Monthly/Ongoing Costs

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#### E. Choose an Appropriate Loan Term

- What this is:
- Choosing a loan product with a loan-term that works for your affordability wishes.
- Cost Effects:
- Longer loan terms (e.g. 30 year instead of 15) help keep monthly payments down because there are more months to divide up your loan into for payback.
  - But, longer loan terms also mean you will have to pay interest for longer, and so while the monthly payments stay lower, the total costs of the loan will go up.
- Guidance:
- The Homeownership Costs Worksheet will get you started on understanding how different loan terms affect your costs.
  - Your HUD housing counselor will also help you map about specific scenarios.
- When to Act: Before Closing  After closing and while in the home
- Impact: Smaller  Moderate  Larger

#### F. Lower Your Interest Rate

- What this is:
- While the economy plays the biggest role in what interest rate you'll have access to, there are some ways to work towards slight reductions:
    - Shop and compare interest rates offered for different loan products and through different lenders.
    - Work on your credit score. Sometimes you can gain access to a better interest rate tier by improving your credit score by only a modest amount.
    - Pay interest rate-reducing points if you plan to be in the home for a long time, and you have the upfront cash to do so.
- Cost Effects:
- A lower interest rate means you are charged less on the principal of your loan, which means both smaller interest payments monthly and less interest paid overall.
  - If paying for points, you'll increase your upfront costs, so it's a choice that needs to make sense both for the total cost of the loan AND your cash-on-hand situation now.
- Guidance:
- The Homeownership Costs Worksheet will get you started on understanding how different interest rates affect your costs.
  - Your HUD housing counselor will also help you map about specific scenarios.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

### G. Make All of Your Payments / Make Extra Payments

What this is:

- Make each and every housing payment on time.
- Make extra payments whenever possible. As a baseline, aim for the equivalent of one extra payment a year (e.g. use a tax return for a one-time payment, pay a little extra each month, etc.)

Cost Effects:

- By never missing a scheduled payment, you avoid paying extra interest on your loan.
- Making extra payments can save you thousands of dollars over the life of the loan in interest.
- It can also shorten the time you need to pay mortgage insurance (if applicable), which will mean a smaller monthly payment.

Guidance:

- If you are at risk of slipping on your payments, contact your lender and your HUD counselor immediately.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

### H. Refinance Your Loan

What this is:

- Refinancing a loan is a practice to try to get more favorable loan conditions than what you had before. It's usually focused on interest rates.
- This is something to consider if your credit improves and/or interest rates are dropping significantly.

Cost Effects:

- Refinancing will lower your interest rate, which should help reduce monthly payments and the total cost of the loan.
- But, keep in mind, you have to pay some fees all over again – so you have to run your numbers to make sure it's worth it.
- Also, it's hard to realize any overall savings if you add to the original term of the loan (years to pay) – but this will likely make monthly payments more affordable.

Guidance:

- Talk to your HUD counselor and run the numbers using an online refinancing calculator before approaching your lender.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

### I. Get Property Tax Exemption(s)

What this is:

- Every owner in Cook County should apply for a property tax exemption.
  - This reduces the assessed value of a home by a standard amount.
  - Apply online within one year of move-in date.
- If you make home improvements, you can also receive the Cook County Home Improvement Exemption
  - This allows up to \$75,000 in improvements without increasing property taxes for at least four years and it's automatically applied based on building permits.

Cost Effects: 

- You'll pay unnecessary taxes if you don't seek the exemption. Your tax bill will be bigger than what you made in escrow payments throughout the year, as escrow calculations assume you will have the exemption.

Guidance: 

- See the assessor's office to determine when you are eligible to apply for your exemption.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

### J. Appeal Your Property Assessment

What this is: 

- If you believe your home has been assessed too highly by the Cook County Assessor, you have the right to appeal within 35 days after receiving a property assessment notice.

Cost Effects: 

- Property taxes will always go up, but unexpected jumps in what the County thinks the value of your home is can dramatically change your monthly payments.

Guidance: 

- Plan ahead by talking with your HUD counselor and by attending community workshops on the topic.
- Follow the appeal steps listed on the website of the Cook County Assessor.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

### K. Be Strategic About Homeowner's Insurance

What this is: 

- Homeowner's insurance is required by your lender and policies renew annually. It protects you (vs. mortgage insurance, which protects the lender).
- There are additional types of insurance, depending on what and where you buy that you may be required to purchase also, or that you may wish to consider independently (e.g. hazard insurance, flood insurance).
- You'll need to decide if you want to pay for "rebuilding costs" vs. "sales cost."
- Shop around before closing and then periodically after purchase. Ask for:
  - Rate matching
  - Long-term or bundling discounts
  - Good credit discounts
- Consider home features that will lead to rate reductions (e.g. disaster resistance, home security, etc.).

Cost Effects: 

- Keeping insurance costs down keeps your monthly payments down.
- But make sure you're always adequately covered. Your home is a big, big asset and it's worth protecting.

Guidance: 

- Online workshops can provide unbiased education that can help you before approaching the insurance agencies.
- Your HUD counselor may also have some insight, or may be able to point you to unbiased resources.

When to Act: Before Closing  After closing and while in the home

Impact: Smaller  Moderate  Larger

## L. Stick to a Home Maintenance Plan

- What this is:
- Routine maintenance helps avoid emergencies!
    - Create a routine cleaning and maintenance calendar and stick to it.
    - Keep your savings for home maintenance needs on budget.
    - Share the cost and storage of big items like lawn mowers, ladders, and snowblowers with neighbors.
  - Be prepared for the big things:
    - Know the likely replacement schedules for your major items (e.g. boiler, roof, heating and air, appliances, etc.).
      - Shop for deals up to a year beforehand.
    - Know who to call in an emergency so you can 1) address the issue before it makes things worse, and 2) trust the fees while under stress.
  - Build your skills:
    - Learn what you can do yourself.
    - Attend community classes or watch videos.
- Cost Effects:
- Addressing maintenance items while they are small keeps them from becoming big, expensive emergencies.
- Guidance:
- Your home inspector and sellers can give you the replacement schedules for major items, and point out any issues you should address/pay attention to.
  - Your new neighbors will likely have similarly aged homes and home types. Seek their advice on what to be aware of.
- When to Act: Before Closing  After closing and while in the home
- Impact: Smaller  Moderate  Larger