



Step 7:

Welcome to Homeownership

Congratulations! You are officially a homeowner. With all the excitement of owning your own home, there is also great responsibility. Even though this is Step 7, you can think of buying the house as just the beginning. Let's go through the responsibilities of owning a home, how to plan for ongoing expenses, and how to maintain the value of your home.

This step covers:

- Your responsibilities as a homeowner**
- Future ongoing expenses**
- Maintaining the value of your home**



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Your responsibilities as a homeowner

You'll learn:

Why it's important to make mortgage payments on time

What to do if you can't make your payments

The importance of home maintenance

What are your responsibilities as a homeowner? These can be different for everyone, but here are some basics in making sure that you keep the commitments you made when you bought your house.

Pay your mortgage on time

First and most important, it's absolutely crucial to pay your **mortgage** payment in full and on time each and every month. Depending on the agreement with your **lender**, late payments could affect the terms of the loan. Whether it's an **interest rate** increase or late fee, late mortgage payments could put you in a situation that is hard to get out of. Plus, they will affect your **credit report** and score, which could affect your ability to take out loans in the future. By missing payments, you could put yourself in a risky financial position that could result in losing your home to **foreclosure**.

Depending on the agreement with your lender, late payments could affect the terms of the loan.

If you face a hardship such as job loss, income reduction, or sickness that makes it hard to make your payments on time, it's essential to call your loan **servicer** right away to talk through your options and come to a solution.

Maintain your home

Maintaining the safety and soundness of your home is extremely important not only for your own well-being, but also because maintenance costs could go up and issues could become more severe, the longer you wait. If the condition of the house deteriorates, you may end up selling it for less than you paid for it and you'd need to pay the difference at **closing** or remain there until you've built up more **equity**. In a little bit, we'll go through in more detail what maintaining your home can involve.

Mortgage:

A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Lender:

An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Interest Rate:

A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

Credit Report:

A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

Foreclosure:

The legal process by which a property may be sold and the proceeds of the sale applied to the mortgage debt.

Future ongoing expenses

You'll learn:

The benefits of an escrow account

What hazard insurance is

What HOA fees typically cover, if you have them

Continuing to save money is important to cover the ongoing costs of homeownership. Here are a few expenses to expect as a homeowner.

Property taxes and insurance

For as long as you own the house, even after you've paid off your home loan, you'll need to pay for **property taxes** and **homeowners insurance**. Depending on where you live, you'll have local and state property taxes to pay that go toward funding things such as infrastructure, schools, and services like your local fire department and police. It's important to pay your taxes on time or you could face penalties. Most lenders will encourage you to set up an **escrow** account, which allows you to pay toward your taxes and homeowners insurance premiums every month on top of your regular mortgage payment. Then, when taxes and insurance payments are due, whoever maintains your **escrow account** will make your payments on your behalf. Be sure to understand any additional costs or expenses that may arise if you don't set up an escrow account.

Hazard and natural disaster insurance

Depending on your policy, homeowners insurance typically protects your home and personal property from damages caused by rain, hail, theft, and fire, among many other scenarios. Most of the time, however, homeowners insurance may not cover the structure of your home from damage caused by natural disasters. That's what hazard insurance is for. Hazard insurance may also cover your home in case of an event like damage from a car or aircraft, explosion, or damage from an electrical current.

A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the homeowner is in default for a reason other than the failure to make timely mortgage payments.

Loan Administration (Servicer):

A mortgage banking function which includes the receipt of payments, customer service, escrow administration, investor accounting, collections, and foreclosures. Also called "servicing."

Closing Date:

In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Equity:

Ownership interest in a property. This is the difference between the home's market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).

Property Taxes:

The amount individuals pay to their local city/municipality and sometimes county, based on the value of their property.

Homeowners Insurance:

Covers a home's structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

Escrow:

An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

Escrow Account:

The actual account where the escrow funds are held in trust.

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What's covered depends on your policy. **Hazard insurance** doesn't protect you from all natural disasters, though. If you live in an area that is prone to floods, earthquakes, or mudslides, you may want to look into taking out a separate policy for each as necessary. Both hazard insurance and natural disaster coverage should be options that you can add to your homeowners insurance policy, but it's best to ask your insurance company what they offer.

Homeowners association fees

Depending on the type of home you purchase, or the neighborhood you buy in, you may need to pay a **homeowners association (HOA) fee**, **condo** association fee, or **planned unit development (PUD) fee**. Homeowners associations are common if you buy a condominium, townhouse, or single-family home in a planned community. The purpose of the association and the fees you pay are to protect and maintain the neighborhood environment. These fees may cover landscaping costs for shared exterior spaces, snow or trash removal, and shared structures such as a gym, community room, or pool. The total cost of these fees depends on a number of factors like the size of your development and its location.

Hazard Insurance:

Insurance coverage that pays for the loss or damage on a person's home or property (due to fire, natural disasters, etc.). This is usually added as a supplement to homeowners insurance.

Homeowners Association Fee (HOA):

Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. HOA fees are not included in your monthly mortgage payment and must be paid directly to the homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from association to association.

Condo:

A form of homeownership that combines individual ownership of a unit with shared ownership of common facilities. Each owner has a separate mortgage for his or her unit and is responsible for making the payments on the loan and paying associated real estate taxes. An elected board of directors is responsible for operations and management of the common facilities. Each owner pays a monthly recurring fee that covers their share of the cost to repair and maintain the common facilities.

Planned Unit Development (PUD):

A single-family residence located in a community with association dues and other required monthly payments.

Maintaining the value of your home

You'll learn:

Why maintaining your home's exterior is about more than making it look nice

Interior projects that may add value to your home

What to consider when deciding whether to hire a contractor for home improvements.

Maintaining the value of your home is incredibly important for a number of reasons. The most important is that you will likely lose money if you don't maintain your home's value, since the worth of your house may **depreciate** or repairs could cost you even more down the road. You may need to be prepared for some bigger costs for items that need to be addressed during the time you live in your home, such as replacing the roof, installing new windows, or replacing the furnace or water heater. Or, getting the driveway repaved if you have one. These larger expenses can be financed with personal loans or home equity lines of credit. Then there are smaller, more routine upkeep projects like landscaping, painting walls, replacing carpeting, and refinishing wood floors. These smaller projects and repairs are usually paid for out of your personal savings. Your home is probably one of the biggest purchases you will ever make, so keeping it in good condition is essential to protecting your investment. Let's go through what maintaining your home can involve.

Depreciation:

A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.

Maintain exterior

In addition to keeping the exterior of your home looking nice, it's important to maintain it in order to protect the interior from things like water, insects, and other unwanted pests. Some of the most important exterior maintenance tasks include cleaning gutters and downspouts to keep them free from debris, keeping the siding and trim clean and painted to prevent rot, checking the seals of windows and doors to prevent drafts, taking care of your lawn, and maintaining the safety of decks, porches, and stairs. You may also want to regularly spray for insects or contract with a pest control company to do it for you.

Maintain interior

Maintaining the interior of the home is important for both your safety and the integrity of the home structure. This could include things like replacing the furnace filter, cleaning vents, fixing dripping faucets and running toilets, making sure the sump pump drains properly, ensuring that smoke and carbon monoxide detectors are working, and keeping appliances and fixtures in working order. Maintaining these things helps you not only to enjoy your home but also to keep the value of the home from depreciating.

Home improvements

Home improvements can often add value to your home. If you're making energy efficiency improvements, you can see the investment pay off sooner as energy costs can decrease, saving you money on utilities. When doing renovations, it's important to consider if you're planning to do them yourself or hire a contractor. This decision should be based on a number of factors, including your budget, experience, time constraints, and skill level. When hiring a contractor for renovations, it's important to shop around, get estimates, and check references.

When investing in huge add-ons, renovations, or improvements, it's a good idea to consider what you can get back compared to what you put in.

Before investing in heavy renovations or improvements, consider the overall potential value of your home and the most you think you could sell it for in your area. When investing in huge add-ons, renovations, or improvements, it's a good idea to consider what you can get back compared to what you put in.

Home security

A home security system can protect your home and possessions from theft and fire. Security systems range from simple alarms on windows and doors to installing cameras, motion detectors, and floodlights around the property. Choosing the right one for you depends on what you're looking for in a home security system, as well as your budget. Some security systems connect to smoke detectors and will alert your security company if smoke is detected, even if you're not home. In addition to protecting your home, security systems often provide peace of mind and a sense of safety whether you're at home or not.

Property damage

It's what any homeowner dreads: damage to their property. Whether it's from a natural disaster or theft, your house could be damaged as a result of many different causes. If this happens, it can feel overwhelming. If you think someone broke in, call 911 and be sure to get a police report, especially before filing a claim with your insurance company. If your house has been damaged by fire, severe weather, or natural disaster, call your insurance company as soon as possible. The length of the claims process often depends on the extent of the damage. Your insurance company will likely send a representative to evaluate the situation firsthand. If your home is uninhabitable, they might work with you to cover the costs of alternative accommodations, depending on your policy.

That's it!

You've successfully made it through the beginning of your homeownership journey. We hope you found this information valuable and that it helps you find ease—and confidence—in the process. Know that Fannie Mae will continue to be here as a source of housing finance information you can rely on. Now, go enjoy owning a home and knowing you have the information and tools you need to be a successful homeowner.