

## Closing Costs – What You Should Know

In the good-natured, joyful chaos of finalizing a home purchase, there are a wide array of closing costs that your lender will attempt to summarize for you in a “Good Faith Estimate” of how much you’ll owe them when all is said and done. However, your lender is not associated with every single closing cost, and all they can do is give you an educated guess – not a guaranteed price. To be safe, always prepare for closing costs to be more pricy than the estimate – lenders are not required to include costs that do not relate directly to them.

It is possible to ask the seller to pay all or part of the closing costs; however, doing so is a carefully-handled business. With VA or FHA loans, you have every right to ask the seller to pay all closing costs; with a FHA loan, you must have three percent down as an investment in the property. For all other types of transactions, you can only ask the seller to pay the non-recurring items. If your down payment is 10% of the purchase price, the seller can contribute up to 6%; any less and the seller can only contribute up to 3%.

Let’s take a moment and go over specific fees that you’ll run into when finalizing a purchase. There are lender-associated costs, items paid in advance, impounds and reserves, and non-lender-associated costs.

### Lender-Associated Costs

- Loan Origination Fee – Often discussed as “points,” where one point equals one percentage of the loan. If you are willing to pay more in points, your interest rate is lower. For VA and FHA loans, the loan origination fee is one point.
- Loan Discount – Any points past the loan origination fee, which is normally one point. This is lumped together with the loan origination fee in a conventional loan.
- Appraisal Fee – In order to assure both you and your lender of the property’s value, your lender will hire a third party professional appraiser. This fee will vary depending on how difficult the appraisal is, as in the case of extensively modified or very expensive homes.
- Credit Report – Your lender will require a credit report of some kind to check on your credit history.
- Lender’s Inspection Fee – This fee is normally associated with new construction. A “442 inspection” verifies that the construction was completed within safety guidelines and meets all regulations.
- Mortgage Broker’s Fee – The majority of loans are processed through mortgage brokers working with wholesale lenders. The purpose of this field is to let you know how much the mortgage broker is charging, and how much is from the lender. The total of the two is approximately the same as if you obtained a loan directly, so you aren’t paying any extra.
- Tax Service Fee – A fee charged by your lender for their hiring of a third party to monitor your property tax payments.
- Flood Certification Fee – Usually charged by a third party, this fee determines whether or not your property is located in a federally-designated flood zone.
- Flood Monitoring Fee – Some lenders charge this fee to monitor whether or not your property is affected by flood zones being remapped.

- Document Preparation – An approximately 200\$ fee charged by most lenders to draw up the documents with their own specialists.
- Underwriting Fee – As lenders have their own underwriting specialists, they charge this fee to cover the time their underwriter spends on a loan. Tends to vary from 300\$ to 350\$.
- Administration Fee – Occasionally takes the place of the underwriting fee.
- Appraisal Review Fee – As a sort of quality control, some lenders will assess a fee of up to 150\$ in order to review an appraisal for its fairness and accuracy.
- Wire Transfer Fee – Most transactions are done by wire between banks, and most banks charge a wire transfer fee of anywhere from ten to fifty dollars.
- Warehousing Fee – A rarely-charged fee only seen if the lender uses a warehouse line of credit.

### **Items Paid in Advance**

- Pre-paid Interest – Mortgages are due on the first of every month, whereas deals can close at any date. Pre-paid interest is the amount of interest between closing date and the next first.
- Homeowner's Insurance – For single-family homes, normally you'll pay the first year of homeowner's insurance when you close. For condominiums and some townhouses, your Homeowners' Association (HOA) will usually cover this.
- VA Funding Fees – The Veterans' Administration does charge a fee for guaranteeing your loan. If you've not taken advantage of this before, the charge is 2% of the loan; if you have, then it's 3%. Many veterans choose to finance this and add it to the loan balance.
- Up Front Mortgage Insurance Premium (UFMIP) – A fee charged on all FHA purchases, barring condominiums, which is 2.25% of the loan.
- Mortgage Insurance – A rare occurrence, but sometimes lenders will require the first year of mortgage insurance premium to be paid in advance. Normally, when mortgage insurance is required at all, it is acceptable to pay it monthly.

### **Impounds and Reserves**

- Homeowner's Insurance Impounds – Two months' worth of your homeowner's insurance will be deposited into an account that your lender controls, called an impound account. Your lender then has those funds available to ensure that your payments are made in a timely manner.
- Property Tax Impounds – Similarly, an impound account can be started for your property tax payments. The amount required to start it will depend on when you close the deal and when property taxes are due.
- Mortgage Insurance Impounds – Most lenders allow this to be paid monthly with no impound account required, but some ask that you deposit two months' worth of payments into such an account.

### **Non-Lender-Associated Costs**

- Closing/Escrow/Settlement Fee – This fee will vary from state to state, as will methods of closing.

- Title Insurance – Title insurance ensures that the new mortgage on the property is ranked first, as well as assuring the homeowner that they have clear title to the property.
- Recording Fees – Fees ranging up to 75\$ in some states, charged because certain legal documents must get recorded by and registered with the local county government.
- Notary Fees – There are normally two or three forms that must be notarized within the set of loan documents. Your lender will likely provide the notary and charge around 40\$ for the service.
- Pest Inspection – Around 75\$, this inspection checks for current infestations, wood rot, and water damage. Usually, the pest inspection is paid for by the seller, and most major repairs are also taken care of by the seller – however, this is a negotiable item.
- Home Inspection – It's the buyer's choice on whether or not to fund a home inspection, but it is highly recommended. A note: be aware that the home inspector may have higher standards than the local building codes.
- Home Warranty – An optional warranty to cover major appliances if they come with a home; this is normally paid by the seller.
- Loan Tie-in Fee – A fee charged not by the lender, but by a settlement agent, to cover the services they provided to the lender.
- Sub-escrow Fee – An occasional fee charged by the title insurance company to cover their efforts in working with the settlement agent.
- Courier Fee – Not always charged, this fee deals with the efforts of relaying documents back and forth between the various parties involved in the transaction.
- Homeowners' Association Transfer Fee – If purchasing a condominium or townhouse with an HOA, this fee may be charged for the new HOA transferring all of their ownership documents to you.