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Closing Costs

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HOME OWNERSHIP FACT SHEETS

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There are three basic categories of charges and fees in settlement or closing transactions. Costs of getting a loan, charges for establishing and transferring ownership, and amounts paid to state and local governments. Let's examine them one by one.

COSTS OF GETTING A LOAN
Most people associate closing costs with the finance charges levied by mortgage lenders. The charges you pay will vary among lenders, so it pays to shop around for the best combination of mortgage terms and closing costs. You may have to pay the following charges:

Origination or application fees. These are fees for processing the mortgage application and may be a flat fee or a percentage of the mortgage.

Credit report. If you are making a small down payment (usually less than 25%), most lenders will require a credit report on you, your spouse, or equity partner. This fee is often a part of the origination fee.

Points. A point is equal to 1% of the amount borrowed. Points can be payable when the loan is approved (before closing) or at closing. For FHA and VA mortgages the seller, not the buyer, must pay the points. Even if you are not using an FHA or VA mortgage, you may want to negotiate points in the purchase offer. If you want to pay the points up front, they are deductible on your income taxes in the year they are paid.

Document preparation fees. You will see an amazing array of papers, ranging from the application to the acceptance to the closing documents. Lenders may charge for these or they may be included in the application and/or attorney fees.

Preparation of amortization schedule. Some lenders will prepare a detailed amortization schedule for the full term of your mortgage. They are more likely to do this for fixed mortgages than for adjustable mortgages.

Appraisals. Lenders want to make sure the property is worth at least as much as the mortgage. Professional property appraisers will compare the value of the house to that of similar properties in the neighborhood or community.

Land Survey. At a minimum, the lender may require an independent verification from a surveying firm that your lot has not been encroached upon by any structures since the last survey conducted on the property.

Private mortgage insurance. If your down payment is less than 20 or 25%, many lenders will require that you purchase private mortgage insurance (PMI) for the amount of the loan. That way, if you default on the loan, the lender will recover his money. The insurance payments will continue until your principal payments plus down payment equal 20% or 25% of the selling price, but they may continue for the life of the loan.

Because costs may vary significantly from area to area and from lender to lender, the following are estimates only.

Application Fee	$ 75	to	$300
Appraisal Fee	$150	to	$400
Survey	$125	to	$300
Mortgage Insurance	0.5%	to	1.0%
Homeowner's Hazard Insurance	$300	to	$600
Lender's Attorney's Review Fee	$75	to	$200
Title Search and Title Insurance	$450	to	$600
Home Inspection Fee	$175	to	$350
Loan Origination Fee	1%	of	loan
Discount Points	1-3%	of	loan

Inspection required by lender. If you apply for an FHA or VA mortgage, the lender will require a termite inspection. In many rural areas, lenders will require a water test to make sure the well and water system will maintain an adequate supply of quality water to the house.

Prepaid interests. Your first regular mortgage payment is usually due about 6 to 8 weeks after you close (for example, if you close in August, your first regular payment will be in October, the October payment covers the cost of borrowing money for the month of September). Interest costs, however, start as soon as you close. The lender will calculate how much interest you owe for the fraction of the month in which you close (for example, if you close on August 25, you would owe interest for 6 days). In some cases this interest is due at closing.

Title Search and Title Insurance. Lenders require a title search to ensure that the seller is the owner of the property and that the title is "clear." A clear title means that there are no "encumbrances" on the title, such as liens (legal claims against a property) filed by creditors in an attempt to collect unpaid bills, as well as liens filed by the IRS for nonpayment of taxes. Any claims against the property must be paid before or at closing. The buyer usually pays for the title search. Title insurance gives the buyer a "marketable title" which means that the insurance company will protect the lender or owner if there is a flaw in the title after the property has been purchased.

CHARGES FOR ESTABLISHING AND TRANSFERRING OWNERSHIP

Attorney fees. You may want to work with an attorney when buying a home. Attorneys usually charge a percentage of the selling price (three-quarters or 1 percent), but some may work for a flat fee on an hourly basis.

Homeowner's insurance. Most lenders require that you prepay the first year's premium for homeowner's insurance (sometimes called hazard insurance) and that you bring proof of payment to the closing. This insures that their investment will be secured, even if the house is destroyed.

Real state agent's commission. The seller pays the commission to the real estate agent. If one agent lists the property and another sells it, the commission is usually split between the two. It's important to keep in mind that the commission is negotiable between the seller and the agent.

GOVERNMENT COSTS INCLUDE THE FOLLOWING

Transfer taxes. These taxes are required by some localities to transfer the title and deed from the seller to you.

Recording fees. To pay for the county clerk to record the deed and mortgage and change the property.

Other state and local fees. These can include mortgage taxes levied by states as well as other local needs.

Information adapted from *A Consumer's Guide to Mortgage Closings* , prepared by Federal Reserve Board and Federal Home Loan Bank, and *H.O.M.E. CLOSING COSTS* written by Jeanne M. Hoggarth, Associate professor, Department of Consumer Economics and Housing, New York College of Human Ecology, Cornell University, Ithaca, NY 14583.

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