

What are Closing Costs?

“Closing costs” is a term you’ll hear thrown around a lot during the homebuying process, and if this is your first time buying real estate, you may not exactly what closing costs are and how much they’ll be.

It can be a hard question to answer, since the fees differ based on the size and type of loan, your lender and what type of property you’re buying. The Consumer Financial Protection Bureau has a breakdown of the basic closing costs and what to expect, and you can ask questions of your lender, real estate agent and title company representative to get harder numbers on how much you may be paying.

The title company will act as the arbiter of sorts throughout the whole process, balancing out who pays what to what other party. They will handle the money changing hands and get it to the right person, as well as filing the paperwork with the county.

WHAT GOES INTO CLOSING COSTS?

Title services fees: Some of these costs pay for the services of people who are actually helping you through the homebuying process. Title service fees, which include the title search fee, the premium for your lender’s title insurance policy (which protects you and



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REAL ESTATE 101

Closing Day Tips

Closing day can be overwhelming. The Consumer Financial Protection Bureau offers the following tips to help you close like a pro:

- Before you sign, make sure you carefully read and understand all the loan documents. Don’t sign the loan documents if the loan is different from what you expected. Don’t sign the documents if you can’t make the payments, if you find any errors, or if you do not understand the loan terms.
- Be sure to understand how your payments may change over time. With an adjustable-rate mortgage, your payments may increase over time, and it is important to understand when the payment can change and by how much. Even with a fixed-rate mortgage, your total monthly payment may change due to changes in your taxes or insurance.

their investment if someone later sues, saying they have a claim against the home), and other costs related to the title company’s work, such as lend-

er’s endorsement, settlement and wire transfer fees.

In addition to title insurance for your lender, the buyer or seller may also choose to get

title insurance. Typically, that will be paid by whichever party opts for it.

Lender fees: Financial institutions will charge a loan origi-

nation fee, as well as a small percentage of the loan amount for “points.” (Talk to your lender about what this means for you.) They may also charge a fee for locking in your interest amount past a certain period.

Your lender will also collect prepayment of some property taxes and homeowner’s insurance; if you are paying mortgage insurance, you also may pay some amount up front.

Other costs: The cost of the appraiser; any fees charged by the homeowner’s association; a fee for running a credit report on you (and a spouse or partner, if more than one of you are on the loan); tax-related service fee and recording fees all are part of closing costs.

For some of these costs, you or the lender can shop around and look for lower costs. Other costs, such as the appraisal and credit report fees, are set.

WHO PAYS THEM?

Most of the costs are paid by the buyer. You can include the seller paying closing costs as part of the deal; this may mean you’ll pay more for the home, but that cost will then be part of the loan instead of the coming out of your bank account. You can also negotiate for the seller to pay a portion of the closing costs in exchange for not making certain repairs around the house.



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HOMESWISER GLOSSARY

Truth-In-Lending Act (TILA): A federal law that requires disclosure of a truth-in-lending statement for consumer credit. The statement includes a summary of the total cost of credit, such as the annual percentage rate (APR) and other specifics of the credit.

SOURCE: Federal Trade Commission

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