Closing Costs Explained

Here is an overview of the types of closing costs you may incur on your loan. Some are one-time fees, while others reoccur over the life of the loan. When you apply for your loan, you will receive a Loan Estimate (LE) of Settlement Charges and the mortgage lender will explain them in detail.

**Loan Origination Fee:** This fee covers the lender's administrative costs in processing the loan. It is a one-time fee, often expressed as a percentage of the loan. The origination fee is typically 1% of the loan, but remember, you can obtain a loan with no origination fee and a slightly higher interest rate.



**Loan Discount:** Often called "points", a loan discount is a one-time charge used to adjust the yield on the loan to what market conditions demand. One point, equal to 1% of the loan amount, can result in an interest rate 0.25% less.

**Appraisal Fee:** This is a one-time fee that pays for an appraisal, which is a statement of property value viewed by the lender. The appraisal is made by an independent fee appraiser.

**Credit Report Fee:** This one-time fee covers the cost of the credit report that is run by an independent credit reporting agency.

**Title Insurance Fee:** There are two title policies: a lender's title policy (which protects the lender against loss due to defects on title) and a buyer's title policy (which protects you). These are both one-time charges.

**Miscellaneous Title Charges:** The title company may charge fees for a title search, title examination, document preparation, notary fees, recording fees, and a settlement or closing fee. These are all one-time charges.

**Document Prep Fee:** There may be a separate, one-time fee that covers preparation of the final legal papers, including the note and deed of trust.

**Lender Fees:** Other lender fees include an underwriting fee, a flood certification fee, an amortization schedule fee, and other miscellaneous fees that should be disclosed by your mortgage lender at loan application.

**Prepaid Interest:** Depending on the time of month your loan closes, this charge may vary from a full month's interest to just a few days' interest. If your loan closes at the beginning of the month, you will probably have to pay the maximum amount. If your loan closes at the end of the month, you will only have to pay a few days' interest.

**Mortgage Insurance:** Depending on the amount of your down payment, you may have to pay a monthly fee based on the amount of the down payment. This fee protects the lender against loss due to foreclosure. Note: FHA loans require an up-front mortgage insurance premium in addition to the monthly fee.

**Beginning of the Escrow Account:** Your lender will typically have an escrow account where your property taxes and property insurance will be held. This account will be started with a prorated amount collected from the seller, depending on the closing date. In addition, approximately two months taxes will be collected from the buyer. Your property insurance will be collected one year in advance, plus two months will be kept in your escrow account.

**Earnest Money Deposit:** At the time a written offer is initiated, you will be required by the seller to include a personal check, cashier's check, or cash, called the earnest money deposit. Depending on the price of the property, you may anticipate approximately 1-2% of the purchase price. This amount is credited to you as a partial down payment and represents your intent to purchase the property. The earnest money is normally deposited into the designated title company's escrow account upon the offer's acceptance, and will remain in escrow until the time of closing. If the offer is not accepted, this amount is returned to you promptly. Also, in the event that you ultimately do not qualify for the new loan, or if there are unresolved title or inspection issues, the earnest money is refunded to you. The timing and deadlines for canceling the contract without forfeiting earnest money are set forth in the contract.

**Title Insurance:** When you purchase your home, both you and the lender need a preliminary title commitment that will indicate exactly what recorded liens, encumbrances and recorded easements are currently in effect on the property. The title commitment will also indicate the vested owner of record and any restrictions on the use of the property. Title insurance is, for all practical purposes, required on all property in most states and is normally a seller's expense. However, the buyer is required to furnish the lender with a lender's policy showing the lender as lien holder on that property. These charges will be incurred at the time of settlement as a part of your closing costs. When the purchase of the property is closed, and the title company has recorded the necessary documents, the title company will then issue a title insurance policy binder to you and the lender, showing clear title to the property.

**There's certainly a lot to know!** Have additional questions? [Click here](http://www.realestatefirm.com/buyers_questions.asp) and let us know how we can help!