



# Real Estate | Re-Imagined

A Guide to Understanding Closing Costs  
by  
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# Closing Costs

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## What Are Closing Costs?

Closing costs are the expenses, over and above the price of the property, that buyers and sellers normally incur to complete a real estate transaction.

Costs incurred may include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees and credit report charges. Prepaid costs are those that recur over time, such as property taxes and homeowners' insurance. The lender is required by law to state these costs in a "good faith estimate" within three days of a home loan application. Gifts of equity still incur closing costs.

## Examples of Closing Costs

Origination fees are fees charged by the bank for the creation of a loan. The fee typically amounts to 1% of the mortgage. The buyer can purchase discount points up front to reduce the interest rate charged by the bank. Although the bank requires a credit report and loan application, these fees are negotiable and can be covered by the bank. Private mortgage insurance is an additional fee applied to any purchase with a down payment less than 20%.<sup>3</sup>

Title insurance protects the lender from claims against the house and protects the buyer from past contractors making claims against the property. Lenders often require an appraisal, which can cost up to \$400 in most areas. Local governments charge recording fees and taxes to record the sale of property. These transfer taxes vary from state to state.

All of the closing costs will be itemized on the loan estimate and closing disclosure. Here are the standard fees you can expect to see:

### Application Fee

- A fee charged by the lender to process your mortgage application. Ask the lender for details before applying for a mortgage.

### Attorney Fee

- A fee charged by a real estate attorney to prepare and review home purchase agreements and contracts. Not all states require an attorney to handle a real estate transaction.

### Closing Fee

- Also known as an "escrow fee," this is paid to the party who handles the closing: the title company, escrow company or an attorney, depending on state law.

### Courier Fee

- If you're signing paper documents, this fee helps expedite their transportation. If the closing is done digitally, you might not pay this fee.

### Credit Report Fee

- A charge (\$15 to \$30) from a lender to pull your credit reports from the three main reporting bureaus. Some lenders might not charge this fee because they get a discount from the reporting agencies.

### Escrow Deposit

- Some lenders require you to deposit two months of property tax and mortgage insurance payments at closing.

### FHA Mortgage Insurance Premium

- FHA loans require an up-front mortgage insurance premium (UPMIP) of 1.75% of the base loan amount to be paid at closing (or it can be rolled into your mortgage). There's also an annual MIP payment paid monthly that can range from 0.45% to 1.05%, depending on your loan's term and base amount.<sup>4</sup>

### Flood Determination and Monitoring Fee

- A fee charged to a certified flood inspector to determine whether the property is in a flood zone, which requires flood insurance (separate from your homeowner's insurance policy). Part of the fee includes ongoing observation to monitor changes in the property's flood status.

### Homeowners' Association Transfer Fee

- If you buy a condominium, townhouse, or property in a planned development, you must join that community's homeowners' association. This is the transfer fee that covers the costs of switching ownership, such as documents. Whether the seller or buyer pays the fee may or may not be in the contract; you should check in advance. The seller should provide documentation showing HOA dues amounts and a copy of the HOA's financial statements, notices and minutes. Ask to see these documents, as well as the bylaws, covenants, conditions, and restrictions (or CC&Rs) and rules of the HOA before you buy the property to ensure it's in good financial standing and it's a place you want to live.

### Homeowner's Insurance

- A lender usually requires prepayment of the first year's insurance premium at closing.

### Lender's Title Insurance

- An up-front, one-time fee paid to the title company that protects a lender if an ownership dispute or lien arises that it didn't find in the title search.

### Lead-Based Paint Inspection

- A fee paid to a certified inspector to determine if the property has hazardous, lead-based paint.

### Points

- Points (or "discount points") refer to an optional, up-front payment to the lender to reduce the interest rate on your loan and thereby lower your monthly payment. One point equals 1% of the loan amount. In a low-rate environment, this might not save you much money.

### Owner's Title Insurance

- This policy protects you in the event someone challenges your ownership of the home. It is usually optional but highly recommended by legal experts.

### Origination Fee

- This charge covers the lender's administrative costs to process your fee and is typically 1% of the loan amount. Some lenders do not charge origination fees, but usually, charge a higher interest rate to cover costs.

## Pest Inspection

- A fee that covers the cost of a professional pest inspection for termites, dry rot or other pest-related damage. Some states and some government-insured loans require the inspection.

## Prepaid Daily Interest Charges

- A payment to cover any interest on your mortgage that will accrue from the date of closing until the date of your first mortgage payment.

## Private Mortgage Insurance (PMI)

- If your down payment is less than 20%, your lender might require PMI. You might be required to make the first month's PMI payment at closing.<sup>3</sup>

## Property Appraisal Fee

- A required fee paid to a professional property appraisal company to assess the home's fair market value used to determine your loan-to-value (LTV) ratio.

## Property Tax

- At closing, expect to pay any property taxes that are due within 60 days of the home purchase.

## Rate Lock Fee

- A fee charged by the lender for guaranteeing you a certain interest rate for a limited period of time, typically from the time you receive a preapproval until closing.

[Got a Good Mortgage Rate? Lock It In!](#) gives you the details.

## Recording Fee

- A fee charged by your local recording office, usually city or county, for the recording of public land records.

## Survey Fee

- A fee charged by a surveying company to check property lines and shared fences to confirm a property's boundaries.

## Tax Monitoring and Tax Status Research Fees

- A third-party fee to keep tabs on your property tax payments and to notify your lender of any issues with your property tax payments, such as late or failed payments.

## Title Search Fee

- A fee charged by the title company to analyze public property records for any ownership discrepancies. The title company searches deed records and ensure that no outstanding ownership disputes or liens exist on the property.

## Transfer Tax

- A tax levied to transfer the title from the seller to the buyer.

## Underwriting Fee

- A fee charged by the lender for underwriting your loan. Underwriting is the research process of verifying your financial information, income, employment and credit for final loan approval.

## VA Funding Fee

- If you're a VA borrower, this fee, charged as a percentage of the loan amount, helps offset the loan program's costs to U.S. taxpayers. The amount of the funding fee depends on your military service classification and loan amount; the fee can be paid at closing or rolled into your mortgage. Some military members are exempt from paying the fee.

Another big fee: real estate commissions. Buyers don't pay this fee, though; sellers do. Typically, the commission fee is 5% to 6% of the home's purchase price, and it's split evenly between the seller's agent and the buyer's agent.