

Introduction to Closing Costs

Closing costs may be defined as the expenses incurred by a homebuyer and a homeseller in the process of transferring real estate from one party to another.

Closing costs vary widely from city to city and it is customary in some areas for the buyer to pay for certain items, while it would be customary in other areas for the seller to pay for those items. However, we will group these closing costs in the areas where it is customary for either the buyer or seller to pay in the majority of areas.

BUYERS CLOSING COSTS: The buyer generally has to pay for a **credit report** on himself, showing a lender that he is creditworthy. The buyer may pay for an appraisal on the property to determine the actual value of the property. This appraisal protects the lender against loaning more than the property is worth and protects the buyer from paying more than the appraised value. The buyer must also pay a **loan origination fee**, which is a lender charge to offset the cost of processing the loan application (loan officers and processors salaries, etc.). The buyer usually pays to have a survey done, so he will know the exact location, size and legal description of the property. In many areas only a "paper" survey is completed showing the dimensions, easements, driveways, fences, etc. on paper. Other areas require a "stake" survey, where the surveyor drives stakes into the ground marking the actual boundaries. The stake survey is preferred but is more expensive than the paper survey. Buyers are often charged for **property inspections** and **pest inspections**. The property inspection is conducted by a qualified inspector or inspectors who determine if the roof, plumbing, structural and electrical systems are sound. The pest inspection is performed by a professional pest control person to insure that the house being purchased does not have termites or other home pests. If treatment for termites is required, the cost becomes substantially greater. The buyer is generally required to pay certain **legal costs** to obtain the property such as recording expenses. That is, the mortgages and deeds are recorded at the local courthouse for the buyer's protection and he is charged so much for each document recorded. **Title insurance** is another cost the buyer may incur; although it is customary in many states for the seller to pay for the title insurance costs. A few states even use an "abstract" rather than title insurance. In both cases however, an opinion is made by a professional that the title the buyer is going to receive on the property is free of liens or encumbrances. **Attorney fees** are also an expense incurred by the buyer. Some states charge a **state tax** on the purchase of the property. This fee is usually a stated percentage of the selling price. The buyer is also required to put up reserves for taxes and insurance. These pre-payments for taxes and insurance are called prepaids or prepayments. At least one years insurance must be paid in advance and usually at least two months taxes. These costs are kept separate from the one time closing costs.

SELLERS CLOSING COSTS: The seller in many areas pays for the **title insurance**, to satisfy the buyer that the title to the property is free of liens and encumbrances. The seller is required to payoff any **existing mortgages** on the property. In some areas the seller pays for **pest inspections**. On VA FHA and conventional loans the discount points are paid by either the buyer or seller, although in practice the seller usually pays. The seller must pay attorney fees and any pro-rated taxes and insurance due on the property, however, these payments are usually paid in advance, so the seller would receive a credit for advanced payments. The seller is required to pay a **broker's fee**. This is the real estate commission paid to a broker who sells the house for the seller.