



Closing Costs Explained

Closing your home should be exciting, and once you understand the process and how it works, it can be.

Here you will find a list of costs commonly associated with closing on a home. Fees may vary depending on where you live, so be sure to talk to your lender, real estate agent, and settlement company for more specific information.

All closing costs must be listed on your [HUD-1 settlement form](#), a document that is required to be filled out prior to finalizing the purchase of your home.

What are My Closing Costs?

Real Estate Broker Commission/Fees (Section 700)

If you use a real estate agent to help you in buying your home, the cost of the agent's services can be paid in one of two ways. Generally, the seller pays for all agents in a transaction in an amount usually stated as a percentage of the sales price. While this amount will be deducted, along with other seller-paid closing costs, from any amount the seller might otherwise be paid and is usually stated on the HUD-1, this will not be your charge. Increasingly, buyers in some places are engaging their own so-called "buyer's broker or agent." How they are paid and by whom varies from place to place and can be negotiated in many cases. Sellers frequently also pay for such services on behalf of buyers but if a charge is paid by the buyer, it will also be stated on the HUD-1 and added to the amount you'll need to bring to closing.

Loan Fees - Direct Loan Costs (Section 800)

Most people need to obtain a mortgage loan to pay for their home. There are often fees associated with obtaining a loan such as the ones listed below. These fees include ones paid directly to the lender or the lender's designated payee. Fees payable to third-party loan originators (typically Mortgage Brokers) are also shown in this section of the HUD-1.

- **Loan Origination Fee** - This fee covers the lender's cost of obtaining financing and administration for your loan. The fee is usually calculated as a percentage of the loan amount but can also be in a flat dollar amount. It has become more common for an "application" fee (stated in flat dollar amount) and, possibly, other up-front charges like an "underwriting" fee (also usually in flat dollar terms) either to take the place of or be in addition to an origination fee. Each lender and each loan program a lender offers will have different front-end charges. You should shop carefully and examine all the fees and terms prior to closing. It is generally too late to change those fees and terms at closing.

- **Loan Discount (Sometimes referred to as "points")** - This is a one-time fee charged by the lender in order to give you a lower interest rate on your loan. Each point is 1% of the mortgage amount. Points paid upfront can reduce the interest rate you pay on your loan. Whether this is the best option for you in shopping for a mortgage loan depends on whether you have the necessary cash and how long you think you'll stay in the home or keep the mortgage before selling or refinancing — the longer you intend to stay and keep the financing, the better off you may be paying something upfront and paying a lower interest rate on your loan. In any event, this cost will be collected at closing generally.
- **Appraisal Fees** - To approve your loan your lender has to obtain an estimate of what your home is really worth. The appraisal fee covers the cost of getting an estimate of the market value of your home, usually by an independent, certified, licensed appraiser.
- **Credit Report Fee** - Mortgage lenders require a credit report to determine whether or not you are eligible (have good enough credit) for a loan, how much they will lend you and at what interest rate. Credit Reports today often also include a "credit score" which is an indicator of your ability and willingness to repay the loan. The higher your credit score, the better risk you are.
- **Lender Inspection Fees** - If the lender requires certain inspections to take place before closing (particularly where new construction or recent repairs are involved), such inspection fees, payable to the lender or its designee, will appear in this section of the HUD-1.
- **Mortgage Insurance Application Fee** - There are often fees associated with processing an application for mortgage insurance. Some private mortgage insurers waive the application fee. This line of the HUD-1 may be used for other fees when the borrower is seeking an FHA-insured or VA-guaranteed loan.
- **Assumption Fee** - If you are taking over the existing mortgage loan on the home, there is often a charge associated with assuming the mortgage, called the assumption fee.
- **Mortgage Broker Fee** - This fee covers the costs of services of a mortgage broker if one is engaged by the borrower to help them shop for mortgage financing. Mortgage brokers typically present the borrower's application to a variety of funding sources before helping the borrower make their final selection.

Items Required by the Lender to be paid in advance (Section 900)

There are certain items the lender may require you to pay at the time of closing or in advance of the actual closing date. These could include:

- **Interest** - Lenders usually require payment of loan interest from and including the day of closing through the end of the month of closing. After that, interest is accrued and paid as part of the monthly loan installments.
- **Mortgage Insurance Premium** - At the settlement, you may be required to pay your first year's mortgage insurance premium, or a lump sum premium that covers the life of the loan. This fee is payable to a Private Mortgage Insurance Company. If the loan is being federally insured (FHA) or guaranteed (VA), the mortgage insurance or funding fees for those government loan programs would be charged here.
- **Hazard Insurance Premium** - Oftentimes lenders require payment of one year's hazard insurance, commonly referred to as homeowner's insurance, against fire, windstorms and natural hazards. In order to bind the coverage, the premium is often paid in advance of closing.
- **Flood Insurance** - Depending on the location of your home, flood insurance may be required and payment of the first year's premium must be made in advance of closing.

Escrows/Impounds/Reserves (Section 1000)

Although the lender isn't required to provide an estimate of the reserves they will be collecting, it is important that you be aware of whether the lender will or will not be "escrowing" for taxes, mortgage insurance (if any), hazard and flood insurance. The use of an escrow/impound account to build up the funds needed to pay these items as they become due can often be a good way for borrowers to budget rather than having to pay these large sums out-of-pocket when they come due. Be sure to ask your lender in advance of closing how these items will be paid on a go-forward basis

Title and Closing Charges (Section 1100)

These fees cover the administrative costs of a title search, title examination, issuance of the title commitment/binder and final title insurance policy(ies.) Also included would be charges for conducting the closing/settlement/escrow. You are free to select the company to conduct your closing/settlement/escrow, and to shop for the best pricing. Be sure to visit the [Shopping for Title Insurance](#) section of this site.

- **Settlement/Closing Fee** -A fee must be paid to a settlement agent who has prepared documents, calculated figures, and oversees proper execution of closing documents. This fee is often split between buyer and seller but can be negotiated as part of the sales contract.
- **Abstract of Title, Search, Title Examination, Title Insurance Commitment or Binder** - In order to ensure that there are no pre-existing problems with your property, a title insurance professional must perform a title search and produce documentation on the home's title. In some places, one or more of these charges will appear separately on the HUD-1 and in other places they may be included within the title insurance premium. When a mortgage loan is involved, there may also be added charges for special endorsements that will accompany the lender's title policy.
- **Document Preparation** - Some settlement agents charge for the cost of preparing legal papers such as the mortgage, deed of trust, note or deed and/or other loan and title documentation. If a lender charges a document preparation fee, it will typically appear in the Loan Fees/Direct Loan Costs section of the HUD-1.
- **Notary Fee** - Because there are legal documents involved, a licensed notary is required to acknowledge the fact that the proper people signed these official documents in their presence. Notaries often charge a fee for their services.
- **Attorney fees** - Both the homebuyer and the seller might have their own legal representation to prepare and record legal documents. Frequently, however, where an attorney is acting as a settlement agent, there may only be one involved in the closing. Who pays for those services is a matter of contract negotiation but is often handled like fees paid to any other settlement agent/title agent.
- **Title Insurance** - There are two kinds of title insurance policies: Loan and Owner's policies. The cost for the Loan Policy is based on the loan amount and the cost for the Owner's Policy is based on the sales price of the home. Who pays these one-time fees at closing varies from state to state. Ask your settlement agent how it is handled in your area. In some circumstances, discounts may be available (such as a "reissue rate" or "reissue credit") when the property has recently been insured by a title insurer. Be sure to ask if you are entitled to any discounts.

You also have the option of purchasing a policy with expanded coverage. It's called the Homeowner's Policy and it covers more things than the Owner's Policy. Ask your local title company for an explanation of the expanded Homeowner's Policy so you can decide which policy is the best one for you.

Recording/Government Filing Fees (Section 1200)

Buying a home is not only a big investment, it is also a matter of public record. The property information and the loan information are required to be filed at the county courthouse or other local government recording office.

- **Recording Fees** - The recording fee is paid to a government body which enters an official record of the change of ownership.
- **Transfer Taxes, Document or Transaction Stamps** - These are government charges based on the amount of the mortgage and, often, also on the purchase price. Depending on your location, there could be a city, county or state tax involved, or some combination.

Other, Miscellaneous Charges (Section 1300)

- **Survey Fee** - Lenders and title insurers often require a surveyor to conduct a survey of your property to define the property size and boundaries and to see if any part of the building or other improvements are "encroaching" on a neighbor's yard — or the other way around. They are also looking to see if there are any setback violations or other material matters that are considered problematic.
- **Inspection Fees** - When homes are sold an inspection is often recommended and in some cases the contract may even be contingent upon an acceptable inspection report. This fee covers the cost of an inspector to check the dwelling for any structural problems or issues. Frequently, this is a sales contract term imposed by the homebuyer to obtain an accurate assessment of the condition of the property. The work is done prior to closing but the fee is often collected at closing. There are several inspections that a future homeowner might want to request and a lender might require. These could include pest inspections (termites and other wood-destroying organisms), lead paint inspections (for structures built before 1978), roof inspections, water/well certifications, structural or mechanical inspections, or additional specific inspections based on the property type and location.