ISSUE 93

LAWYERS LINK

BUDGETING FOR CLOSING COSTS BEFORE YOU BUY A HOME

Buying a home is an exciting milestone, especially for first-time buyers. While many homebuyers focus on saving for a down payment, it is equally important to plan for the additional costs required to finalize the purchase. These expenses, known as closing costs, can add up quickly and should be included in your homebuying budget.

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Lawyers Title

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What Are Closing Costs?

Closing costs are the fees and expenses associated with completing a real estate transaction. They are paid at closing, when ownership of the property officially transfers from the seller to the buyer.

The total amount varies depending on factors such as the property's location, loan type, purchase price, and service providers involved in the transaction. In most cases, buyers can expect closing costs to range from 2% to 5% of the home's purchase price, although costs vary based on location, loan type, and other factors.

Understand Your Closing Costs Early

Buyers don't have to wait until closing day to learn what they will owe. After applying for a mortgage, lenders provide a Loan Estimate within three business days, followed by a Closing Disclosure at least three business days before closing, allowing buyers time to review their expected costs and ask questions before signing final documents.

Common Closing Costs

1. Loan Origination Fees

Lenders may charge a loan origination fee to process, underwrite, and fund your mortgage. These costs can include administrative services related to setting up the loan.

Typical cost: Approximately 0.5% to 1% of the loan amount.

2. Loan Application Fees

Some lenders charge an application fee to cover the cost of processing your mortgage application, including credit and administrative reviews.

Typical cost: Approximately \$300 to \$500.

3. Mortgage Broker Fees

If you work with a mortgage broker, a fee may be charged for helping you find and secure financing. Since fees vary, it is important to compare options before selecting a broker.

Typical cost: Varies by lender and loan program, often ranging from approximately 0.5% to 2% of the loan amount.

4. Government or Mortgage Insurance Fees

Certain loan programs, such as FHA loans, require upfront mortgage insurance premiums (UFMIP) that are paid at closing.

Typical cost: FHA loans require an UFMIP, currently 1.75% of the base loan amount, unless program requirements change. Buyers should verify current FHA guidelines with their lender.

5. Property Taxes

Depending on your location and loan requirements, you may need to prepay property taxes and make initial deposits into an escrow account at closing.

Typical cost: Varies by location and property value.

6. Homeowners Insurance

Most lenders require proof of homeowners insurance before closing. This policy protects your home against covered losses such as fire, storms, and other property damage.

Typical cost: Varies based on the property, coverage, and location.

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7. Title Search Fees

A title search is conducted to review public records and verify ownership of the property. This process helps identify any existing liens, claims, or ownership issues that could affect the transfer of title.

Typical cost: Approximately $100 to $400, depending on the property and service provider.

8. Title Insurance

Title insurance helps protect homeowners and lenders from financial loss resulting from certain title defects, errors in public records, undisclosed heirs, liens, or other covered title issues that may arise after closing.

Typical cost: Varies by state, purchase price, and coverage type.

9. Appraisal Fee

Most lenders require a professional appraisal to determine the fair market value of the property. The appraisal helps confirm that the home's value supports the loan amount and protects both the buyer and lender.

Typical cost: Approximately $400 to $700, depending on the property's location, size, complexity, and market conditions. This fee is generally paid before or at closing and is considered part of your overall closing costs.

The Key to Success is Planning Ahead

Closing costs are an important part of the homebuying process and should be factored into your overall budget alongside your down payment and moving expenses.

Before making an offer on a home, speak with your lender about obtaining a loan estimate that outlines your anticipated closing costs. Understanding these expenses upfront can help you make informed decisions, avoid unexpected costs, and enjoy a smoother path to homeownership.

This information does not and is not intended to constitute legal advice; instead, all information is for general information purposes only.

MONTHLY INDUSTRY TERMS

Equity
The difference between the fair market value and current indebtedness, also referred to as the owner's interest. The value an owner has in real estate over and above the obligation against the property.

Loan-To-Value Ratio
The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

Realtor®
A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.