

## **From Start to Finish: Borrower's Guide to Closing**

Closing can be one of the most confusing aspects of buying a home or refinancing a loan. The process begins with your bid, the sales agreement and your loan application. It ends the day of closing when all of the necessary documents are reviewed and signed, and corresponding fees are paid. Usually, it takes between 60 to 90 days to complete the closing process.

Several parties are involved in the closing process, in addition to you and the seller, including attorneys and mortgage and title company representatives. Your attorney will coordinate with each participant to choose a closing date. Keep in mind that it takes time to gather all of the documentation, and if the paperwork is not completed on schedule, it is possible that the closing date can change. This uncertainty can be particularly stressful for buyers who are also selling a home, since the closing date generally dictates moving arrangements.

For your closing, you will need to be prepared with photo proof of identification for each buyer, your new homeowner's policy, as well as various other documents which your attorney will advise you of. And, don't forget your checkbook! The closing is where most fees are settled.

The Real Estate Settlement Procedures Act (RESPA) governs the loan application and closing process. RESPA ensures that homebuyers receive timely notification of closing and other costs. It is also a good idea to review a copy of "Settlement Costs - a HUD guide," if you haven't already received a copy from your lender, call your local HUD office to request a free copy.

### **Closing Costs**

Real estate practices and closing costs vary widely in different areas of the country, and from lender to lender. However, buyers and sellers are free to negotiate certain fees. It's best to do your research before you make any offers, so you're in the best position to negotiate with the seller. In most states, you can also cut costs by shopping around for providers of settlement services.

Generally, you can plan to spend an additional 3 to 5 percent of the loan amount in settlement expenses (for example, \$3,000 to \$5,000 on a \$100,000 mortgage). In higher-tax areas, 5 to 6 percent is more realistic. The exact figure depends upon the location of the property you are purchasing.

### **Here's a handy checklist to help you keep track of closing costs:**

Amount of first loan payment	Legal fees
Loan underwriting fees	Escrow fees
Insurance premium	Fees for title related services
Amount for escrow reserves	Fees for recording services

It's important to have separate certified checks for all closing costs. Remember to bring your checkbook as well, so you can write a personal check for small miscellaneous expenses that may arise.

### **Ask Your Lender for an Estimate of Closing Costs**

Experienced loan officers will provide a rough estimate of closing expenses before you apply for your loan to make it easier for you to shop around. Once you apply for your loan, RESPA requires that your lender provide a Good Faith Estimate of all closing costs within three business days of your application. The lender is also required, under the Truth in Lending Act, to provide a disclosure estimating the costs of the loan you applied for, including your total finance charge and the Annual Percentage Rate (APR), within the same three days. Finally, you will receive a statement of actual closing costs from your lender at or before settlement.

### **Additional Loan Costs**

The fees outlined below are generally associated with every home loan, and some are even required before the close. It is also important to find out how long your rate lock is good for and if it will extend long enough to get you through the loan process and closing. One of the main reasons people end up paying more for their loans is that they don't lock in their rates for a long enough period of time.

In a busy lending market, appraisers, title companies, underwriting departments and other involved parties can get backed up. Additionally, there may be other occurrences that arise and delay the process. Keep in mind that, although you secure a rate lock for 15 or 30 days, you may not be able to close in that amount of time.

#### **\* Application Fee & Credit Report**

Imposed by your lender, the application fee covers the initial costs of processing your loan request, and usually includes a credit report check. The application fee with a credit report can range from \$400 to \$525.

#### **\* Appraisal Fee**

This fee covers an independent appraisal of the home you want to purchase. The lender requires this estimate of the market value of the house in order to make the loan. The appraisal fee varies depending on the purchase price and size of the home. For a \$100,000 home, the minimum fee would be approximately \$275.00.

#### **\* Attorney Fees**

Settlements are conducted by lending institutions, title insurance companies, escrow companies, real estate brokers and/or attorneys. In most cases, whoever

conducts the settlement is providing a service to the lender. You may be required to pay for these legal services. You should also retain your own attorney to represent you at all stages of the transaction. Attorney fees are usually based upon the purchase price of the home and the complexity of the sale, and can range anywhere from \$600 to \$1,000 and up.

**\* Documentation Fees**

Some lenders charge miscellaneous fees for various services, such as underwriting, processing and documentation preparation, which usually total less than 1 percent of the loan amount.

**\* Home & Pest Inspections**

A home inspection by a qualified engineer and pest inspection by a pest control specialist offer assurance that the home you are purchasing is structurally sound and free of termites and any related damage. The costs for these services vary depending upon the location and size of the property, and the professionals you choose.

**\* Homeowner's & Hazard Insurance**

Homeowner's and hazard insurance offer protection against physical damage to your new home by fire, wind, vandalism and other causes. Most states require that the annual premium on your homeowner's insurance be paid in advance and put into effect at closing. Prices for homeowner's insurance vary depending upon the value of the home, the location and the insurance agency.

**\* Interim Interest or Daily Rate of Interest**

This cost is based upon your closing date and covers loan interest from the day you close through the end of the month. Therefore, it can range from 0-30 days' interest, payable to the lender.

**\* Loan Origination Fees & Discount Points**

The origination fee is charged for the lender's work in evaluating and preparing your mortgage loan. Discount points are prepaid finance charges imposed by the lender at closing. Essentially, paying points is a means for the borrower to pay down the interest rate. Paying points can save thousands over the long term, so if you plan to be in your new home five years or longer and you have the cash up front, it's certainly an option to consider. One point equals one percent of the loan amount. For example, one point on a \$75,000 loan would be \$750. In some cases - especially with refinances - the points can be financed by adding them to the loan amount.

**\* Mortgage Insurance (PMI)**

Buyers who make down payments that equal less than 20 percent of the value of the house may be required by lenders and, in some states, by law to take out mortgage insurance. The policy covers the lender's risk in the event the buyer fails to make loan payments. Premiums are usually paid annually from an escrow

or reserve account, or in a lump sum at closing. A buyer whose mortgage is insured by FHA or guaranteed by VA will have to pay FHA mortgage insurance premiums or VA guarantee fees.

**\* Survey**

At a minimum, the lender will require an independent verification from a surveying firm that no additional structures have been added to the lot since the last survey was conducted on the property. The lender may request a complete survey to ensure that the house and other structures on the property meet legal codes and regulations. Depending on the size of the property and the state you live in, surveys can cost between \$250 to \$450.

**\* Title Fees**

In order to purchase a property, you must establish the seller's ownership and transfer ownership from seller to buyer. The following fees are required by a title search company to complete this process:

**\* Document Preparation Fee**

This is usually a flat fee paid to the title company which can range from \$50 to \$200.

**\* Title Search**

It is necessary to prove to the lender that the seller owns the property you wish to purchase in order to get a loan. The title search provides this proof. The title search involves reviewing public records in local government offices, including recorders of deeds, county courts, tax assessors and surveyors. Records of deaths, divorces, court judgments, liens and contests over wills (all of which can affect ownership rights) must also be examined. The title search assures you and your lender that there are no claims against the property. The cost for a title search is based upon the purchase price, and may cost approximately \$300 to \$600.

**\* Title Insurance**

In addition to the title search, title insurance protects you and the lender from an error in the title search. Such an error could mean that the lending institution loaned you money to buy a house from someone who didn't own it in the first place. Lenders' title insurance is approximately .2 percent to .5 percent of the loan amount, paid by the purchaser. Owner's title insurance protects you from title search errors, and usually ranges between .3 percent and .6 percent of the purchase price of the home.

**\* Government Fees**

Government-imposed fees are usually the most costly fees you will incur at closing. These include city, county and state transfer taxes, recording fees and prepaid property taxes.

**\* Taxes**

Most states require that four to eight months' taxes be collected at closing and held in an escrow account. An escrow account is a reserve account set up by your lender in which you deposit enough money to cover the first few months of mortgage insurance, hazard insurance and property taxes. The purpose of the escrow account is to ensure that sufficient funds are available to cover these expenses once you've purchased your home.