

Know What to Expect at Closing

Closing on a new home should be an exciting time. But to some, it ends with the unwelcome surprise of cost increases. Understanding the costs involved at closing will help prevent unexpected surprises.



Closing costs are one of the least understood aspects of the home buying process. However, a good lender will take the time to answer questions and walk you through the process. Closing costs tend to vary from lender to lender, but are generally considered any costs associated with the purchase of a new home. Today, these costs range between 2 and 7 percent of the home's purchase price and include three basic categories:

Out-of-pocket Expenses

Out-of-pocket expenses are fees for appraisals, attorneys, credit reports, deed recording, tax services and other miscellaneous expenses. These fees are for services usually performed by a third party and directly charged to the borrower. Most out-of-pocket fees are necessary and legitimate. However, whenever the borrower sees a fee which they don't understand, they should ask about it.

Prepaid Expenses

Homeowner's insurance, mortgage insurance and costs to set up an escrow account are considered prepaid expenses. Escrow accounts are a service provided by the lender through which they will pay annual insurance premiums and various taxes on the borrower's behalf. The amount that goes into these accounts is based on the first year's premiums, plus an additional amount to help build the account for future premiums. Prepaid expenses are difficult to determine because they depend on the type of property and the time of the closing.

Mortgage Points

A mortgage point is equal to 1 percent of the mortgage loan amount and actually helps reduce the loan's interest rate. For example, depending on prevailing rates, a \$100,000 mortgage might be obtained at 7.75 percent with 2 points, or at 8.25 percent with no points. Obtaining the lower interest rate would cut the mortgage payment by about \$35 a month, but would require \$2,000 — or 2 points — up front at closing.

For more information, call today.

