



## Closing Costs

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There are three basic categories of charges and fees in settlement or closing transactions. They are: the costs of getting a loan, the charges for establishing and transferring ownership, and the amounts paid to state and local governments. Below is an explanation of each.

### Costs of Getting a Loan

Closing costs are usually associated with the finance charges determined by mortgage lenders. These charges vary among lenders. Generally, the closing cost can be 2 to 4% of the loan amount. It pays to shop around for the best combination of mortgage terms and closing costs. The following charges may be required.

**Origination or application fees:** These are fees for processing the mortgage application and may be represented by a flat fee or a percentage of the mortgage.

**Credit report:** Lenders will require that the borrower and any co-borrower's credit be checked. Many lenders do not charge for accessing the credit score, but it is often included in the origination fee.

**Points:** A point is a standard unit, equal to 1% of the loan amount. Discount points may be used to permanently buy down the interest rate and can be paid when the loan is approved (before or at closing). For FHA and VA mortgages the seller (not the buyer) must pay the points. Even if the buyer is not using an FHA or VA mortgage, he/she may want to negotiate points in the purchase offer. If the buyer wants to pay the points up front, they are deductible on income taxes in the year they are paid.

**Document preparation fees:** There will be an amazing array of papers ranging from the application to the closing documents. Lenders may charge for these, or they may be included in the application and/or attorney fees.

**Preparation of amortization schedule:** Some lenders will prepare a detailed amortization schedule for the full term of the mortgage. They are more likely to do this for fixed mortgages than for adjustable mortgages.

**Appraisals:** Lenders want to make sure the property is worth at least as much as the mortgage amount. Professional property appraisers will compare the value of the house to that of similar properties in the neighborhood or community.

**Land Survey:** At a minimum, the lender may require an independent verification from a surveying firm that the lot has not been encroached upon by any structures since the last survey conducted on the property.

**Private mortgage insurance:** If the down payment is less than 20%, lenders will require that private mortgage insurance (PMI) be purchased for the amount of the loan. This insures that the lender will recover his/her money if the buyer defaults on the loan. The insurance payments will continue until the borrower owns 20% of the house's equity.

**Inspection required by lender:** If the buyer applies for an FHA or VA mortgage, the lender will require a termite inspection. In many rural areas, lenders will require a water test to make sure the well and water system will maintain an adequate supply of quality water

to the house. A lead based paint inspection may also be required.

**Prepaid interests:** The first regular mortgage payment is usually due about 6 to 8 weeks after closing. For example, if you close in August, your first regular payment will be in October. The October payment covers the cost of borrowing money for the month of September. Interest costs, however, start as soon as closing is completed. The lender will calculate how much interest is owed for the fraction of the month in which the borrower closes. For example, if closing was on August 25, interest would be owed for 6 days. This interest is due at closing.

**Title Search and Title Insurance:** Lenders require a title search to ensure that the seller is the owner of the property and that the title is clear. A clear title means that there are no encumbrances on the title, such as liens (legal claims against a property) filed by creditors in an attempt to collect unpaid bills, as well as liens filed by the IRS for nonpayment of taxes. Any claims against the property must be paid before or at closing. Title insurance gives the buyer a marketable title which means that the insurance company will protect the lender or owner if there is a flaw in the title after the property has been purchased. Title insurance is a one time fee.

Because costs may vary significantly from area to area and from lender to lender, the following are estimates only.

Application Fee.....	\$75 to \$300
Appraisal Fee.....	\$150 to \$400
Survey.....	\$125 to \$300
Mortgage Insurance.....	0.5% to 1.0%
Homeowner's Hazard Insurance.....	\$300 to \$600
Lender's Attorney's Review Fee.....	\$75 to \$200
Title Search and Title Insurance.....	\$450 to \$600
Home Inspection Fee.....	\$175 to \$350
Loan Origination Fee.....	1% of loan
Discount Points.....	1-3% of loan

## Charges for Establishing and Transferring Ownership

**Title company/Attorney fee:** Some home buyers want to work with an attorney or title company. Attorneys or closing agents usually charge a percentage of the selling price (three-quarters or one percent), but some may work for a fee.

**Homeowner's insurance:** Most lenders require that the borrower prepay at least two months' premium for homeowner's insurance (sometimes called hazard insurance). This insures that the lender's investment will be secure, even if the house is destroyed.

**Real Estate agent's commission:** The seller pays the commission to the real estate agent. If one agent lists the property and another sells it, the commission is usually split between the two.

## Government Costs

**Transfer taxes:** Taxes are sometimes required to transfer the title and deed from the seller to the buyer.

**Recording fees:** These fees pay for the county clerk to record the deed and mortgage and change the property title.

**Other state and local fees:** These can include mortgage taxes levied by states as well as other local needs.

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*Adapted from A Consumer's Guide to Mortgage Closings, prepared by Federal Reserve Board and Federal Home Loan Bank, and H.O.M.E. CLOSING COSTS written by Jeanne M. Hoggarth, Associate professor, Department of Consumer Economics and Housing, New York College of Human Ecology, Cornell University, Ithaca, NY 14853. Revised by Lucy M. Delgadillo, Ph.D, June 2009.*

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