Closing cost cheat sheet

Call Dawn

When you purchase your new home, remember that you'll be responsible for more than just the down payment. You should budget for two main categories of additional costs at closing: "Closing costs" and "Prepaids."

For instance, if you're buying a $400,000 home with a 5% down payment, assuming annual property taxes of $4,200 and insurance costs of $900, these additional expenses can quickly add up. Closing costs alone can increase your total payment significantly, resulting in thousands of dollars owed at closing. Here's a breakdown of where your hard-earned money is going.

Closing Costs

Closing costs refer to the transaction expenses associated with purchasing and financing your home. For most buyers we work with, these one-time costs (excluding points and mortgage insurance) typically range from $3,500 to $5,000.

Lender Fees

Administrative Fees

These fees are paid directly to your lender and help cover the administrative costs of setting up your loan. They come under various names, including application, administrative, underwriting, wire, processing, and document preparation fees. You can expect these fees to total between $1,000 and $2,000. At Guaranteed Rate, our charges amount to $1,290, which includes a $1,140 lender fee and a $150 application fee.

Flood Certification

If your new home is located in a flood zone, flood insurance will be a requirement. We utilize a third party to review FEMA's maps and provide a "flood certification." Most lenders will pass this certification cost onto you, typically ranging from $15 to $20. However, at Guaranteed Rate, we cover this expense for you.

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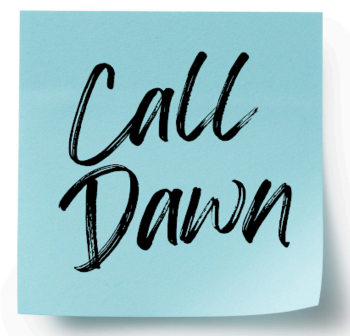
Tax Service Fee



When it comes to property taxes, failure to pay them for multiple years can lead to foreclosure, allowing the county to sell your home to cover the back taxes. To protect their investment, lenders hire third-party tax service vendors to verify that property taxes are paid on time throughout the life of your loan. This service typically incurs a fee of $50 to $100, but at Guaranteed Rate, we cover this expense for our clients.

Appraisal

An appraisal is a professional assessment of the value of the home you are purchasing. Your lender will order this appraisal from an independent, licensed appraiser. While the appraisal report technically belongs to your lender, we provide you with a copy as soon as it's available. Fees for an appraisal generally start at $700 to $900 for a single-family residence; however, if you're buying a rental, multi-unit, rural, or unique property, expect to pay more. Occasionally, for low-risk loans, we may obtain a waiver, allowing us to close a loan without an appraisal, which can save time and money.

Mortgage Insurance

Mortgage insurance (MI) offers protection to lenders against financial losses due to default and foreclosure. If you make a down payment of less than 20%, your loan will most likely require MI. This insurance may be included in your monthly payment, meaning you won't have to pay anything at closing. Some loan programs offer the option to pay MI partially or entirely as a lump sum at closing. The cost of single MI premiums is typically a percentage of your loan amount, varying based on your down payment and credit score (ranging from less than 1% to nearly 3%).

Loan Guarantee Fees

Certain loans are backed by government agencies, which cover lenders' losses in the event of foreclosure. Each of these programs requires you to pay a loan guarantee fee to help offset program costs. These fees can often be financed into your mortgage. For instance, FHA charges a 1.75% "upfront mortgage insurance premium," USDA charges a 1% "guarantee fee," and VA loans have a "funding fee" that ranges from 1.25% to 3.3%, depending on your down payment and eligibility. If you have a service-connected disability, the VA Funding Fee is generally waived.

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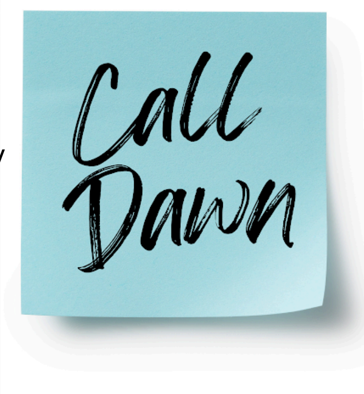
Discount Points



Discount points can be the most variable of all closing costs; they may either be a cost you pay or a credit you receive, labeled as a "lender credit." One discount point equals 1% of your loan amount. While you pay these points at closing, they essentially represent a portion of your interest cost for the loan. By opting to pay discount points, you prepay some interest upfront, which in turn reduces your interest rate. When you lock in your rate, you will also determine the amount of discount points (or lender credit) you will receive at closing.

Title and Escrow Fees

Settlement Fees

The escrow division of a title company acts as a neutral agent, managing the sales agreement between you and the seller. They collect, hold, and distribute your earnest money, down payment, closing costs, prepaid items, Realtor fees, seller's closing costs, and other expenses. The escrow officer will ensure the seller's mortgage is paid off and will notarize and record deeds during your closing at the title company's office. Escrow fees (sometimes called "settlement" or "closing" fees) are typically split between the buyer and seller and can range from $500 to $1,000 for each party, depending on the sale price. In some eastern states, attorneys handle escrow functions.

Notary Fees

If you can't make it to the title company for signing, the title company can arrange for a mobile notary service to facilitate the signing process. Expect to pay $100 to $200 for this service, plus any overnight delivery fees.

Title Insurance and Endorsements

At closing, the title company will issue two policies: an Owner's policy, paid for by the seller to protect you, and a Lender's policy, which is typically shared between you and the seller to protect the lender. Should a claim or lawsuit arise, the title insurance company will defend you and your mortgage company, covering any financial losses. While claims are rare, potential issues can include discrepancies in the legal description, unpaid liens, or identity fraud. Basic title insurance costs typically range from $300 to $900, with an additional $100 to $200 for extra endorsements. The seller pays significantly more, often between $1,000 and $2,000.

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Government Fees

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Recording Fees

During the closing process, you'll sign numerous documents at the title company, a few of which will be recorded with the county. The recording of deeds is the final step in the closing process. The first deed recorded is the one transferring ownership of the property to you (usually a Warranty Deed), followed by the Trust Deed, which attaches your mortgage to your home. The title company manages the recording process and passes along the county's fees, which typically range from $150 to $350.

Reconveyance Fees

If the seller has a mortgage, line of credit, or any other debt secured to the home, the title company will ensure these debts are settled at closing. After paying off these debts, the seller's lender, with the help of the title company, will release their lien on the property by recording a "reconveyance." The seller usually covers this cost (typically around $150 per lien) during a purchase, while you would be responsible for it in the case of a refinance.

Transfer Taxes

Some municipalities impose a tax whenever homeownership changes hands. For example, in Oregon, only Washington County charges such a tax, which is $1 per $1,000 of the sales price, split between you and the seller (costing you $50 for every $100,000). In Washington State, the excise tax is 1.28%, with many cities adding another 0.25% to 0.5%. Fortunately, in most cases, the seller generally covers these taxes.

Prepaids

In addition to one-time expenses, you'll start covering recurring costs associated with owning your new home at closing. These future expenses are known as "prepaids." The cost of prepaids can vary widely, depending on your specific property's tax and insurance rates, your closing date within the month, and the tax due dates for your state. Generally, you should anticipate prepaids of at least $3,000, with common amounts around $5,000, and occasionally reaching $10,000 or more.

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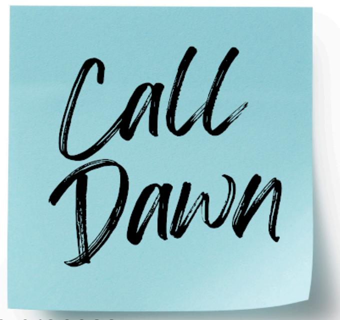
Interim Interest

At closing, you'll also pay interest from the day of closing until the end of that month. To calculate your daily interest cost, multiply your interest rate by your loan amount and then divide by 365.



Insurance

Your first year of homeowners insurance will be paid at closing. As part of the loan process, you'll select an insurance agent and arrange the coverage you desire. We'll verify that it meets your loan requirements and have your agent issue a “binder” of coverage. The title company will collect the premium at closing and forward it to your insurance agent.

Property Tax Pro-Rates

Your purchase contract specifies how property taxes for the current tax year will be divided between you and the seller. The title company will calculate the daily property tax costs to ensure both parties settle up appropriately at closing. Depending on the tax fiscal year and your closing date, you may owe property taxes to your seller, or they may owe you.

Escrowed Taxes and Insurance

When you begin making payments on your new loan, your monthly payment will typically include principal and interest, any mortgage insurance, and 1/12th of your annual property taxes and homeowners insurance. These monthly payments are deposited into an escrow account, which is a savings account managed by your lender. When taxes and insurance come due, your lender will use the funds in this account to cover those costs. At closing, you'll make an initial deposit into your escrow account, with the amount calculated to align with the anticipated due dates for taxes and insurance. If your down payment is 20% or more, your loan may allow you to pay taxes and insurance directly rather than through escrow.

Case-by-Case Costs

Depending on your loan type or the property you purchase, there may be additional costs to consider.

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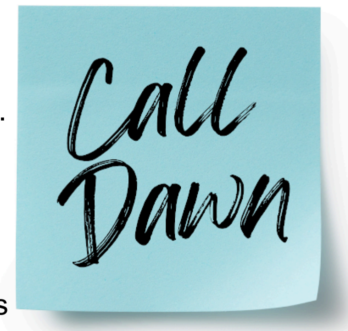
Condominiums



If you buy a condo, your lender will need to gather information about the homeowners association (HOA) to ensure it meets the requirements of your loan. If the HOA is professionally managed (which is common for larger associations), the management company may charge between $150 and $300 for this information. At closing, you could also face transfer or setup fees from the management company ranging from $100 to $500. Additionally, many HOAs require payment of three months' worth of dues at closing: one month's dues plus the equivalent of two months' dues to contribute to the HOA's maintenance fund.

Rural Homes and Manufactured Homes

If your new home is situated outside the immediate metro area, you may encounter additional fees. Many loan programs require you to hire an engineer to inspect the foundation of a manufactured home, providing a report confirming it meets HUD standards. While costs can vary, budgeting around $500 is advisable. If your home is not connected to public utilities, your lender may also require a septic inspection, a well flow test, or a well water quality test. In Oregon, sellers must provide a water quality test to you.

Special Programs

If you belong to a low- or moderate-income household, you may qualify for various assistance programs, such as down payment assistance, affordable second mortgages, or Mortgage Credit Certificates. We can help you determine your eligibility and explore the benefits of these programs. Be aware that some may involve costs; for instance, the City of Portland charges a $775 processing fee for its Mortgage Credit Certificate program.

Homebuyer Education

Certain loan programs require you to complete homebuyer education before closing. In return, you might receive discounts on your closing costs and/or mortgage insurance. We will inform you if you're eligible for any discounts and guide you to the appropriate course that meets your loan requirements. These classes can be taken in person or online, with provider fees typically ranging from $100 to $200.

Home Inspections

Generally, your lender will not request a copy of your home inspection report, as

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these inspections are part of your due diligence in deciding whether to purchase the home and negotiate terms with the seller. However, some loan programs do require you to provide a copy of the inspection report, specifically the section that indicates the home is free from pest infestations and dry rot. If the initial report identifies any issues, these must be resolved prior to closing, and a clear report submitted. Additionally, if the appraisal or sales agreement highlights any concerns, the underwriter may request a copy of your home inspection or a report from a specialist, such as a roofer, engineer, or contractor.

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Rent

During negotiations with your seller, you'll establish a closing date and a possession date for your new home. In many cases, these dates coincide, meaning you receive the keys on the day of closing. However, there are instances where the seller retains possession of the property after closing, or you might gain possession before closing. Additionally, you may purchase a property that currently has a renter. In these situations, the contract may include rental agreements, requiring you to pay rent or receive rent at closing.

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