**What are Closing Costs?**

Mortgage closing costs are fees charged by the lender, to you, for services that must be performed in order to close your loan. You might be curious about how they’re determined and what’s included, so let’s go over what you can expect on a typical mortgage transaction when you buy or refinance a home.

You can expect to pay 2% – 5% of your home’s purchase price in closing costs. Average closing costs generally range from $2,500 – $5,000, which is a sizable amount of money when you consider this is paid upfront at closing. But where exactly does it all go?

Many of your mortgage closing costs go to a third-party for services necessary to complete the transaction. Lenders typically have no control over these fees. Below you’ll find possible closing cost items involved in an average loan transaction:

* **Appraisal**
The appraisal is required to determine the fair market value of the home. A property appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property. Therefore, an appraiser is needed to make this determination.
* **Credit Report**
When you apply for a mortgage, you have to prove that you are capable of paying it back. Lenders will obtain a copy of your credit report to review your borrowing history and ultimately determine if they should risk lending you money. This fee goes to the credit reporting agencies like Experian, TransUnion or Equifax. The credit report will cost you around $15 – $45,
* **Closing Fee**
This fee is paid to the **Title Company** or attorney for conducting the closing.
* **Title Company Title Search or Exam Fee**
This fee is paid to the title company for doing a detailed search of the property records for your home. The title company will look at prior deeds, court records, property and name indexes, and many other documents. This is to ensure that there are no liens or problems associated with your ownership of the property.
* **Survey Fee**
A survey of the property may be required to verify boundary lines for your property and to ensure that there is no encroachment on the lot.
* **Flood Determination/Life of Loan Coverage**
This cost goes to determining whether your property is located in a federally designated flood zone. If the property is found to be located within a flood zone, you will need to buy flood insurance.
* **Courier Fee**
Not all lenders charge this fee, but if you do see this listed, it covers the cost of transporting documents to complete the loan transaction as quickly as possible to avoid paying additional interest on your mortgage loan.
* **Title Insurance (Lender’s Policy)**
This covers the costs of assuring the lender that you own the home and the lender’s mortgage is a valid lien.
* **Title Insurance (Owner’s Policy)**
This is an insurance policy protecting you in the event someone challenges your ownership of the home.
* **Homeowners Insurance**
Homeowners insurance is required to cover possible damages to your home. In the event of a fire or other damage, homeowners will receive this insurance to cover the costs of rebuilding. Your first year’s insurance is often paid at closing.

**Negotiate with the Seller**

You can actually reduce the amount you pay at closing by requesting the seller to cover closing fees. One way is to offer the full purchase price on the home with the stipulation that the seller pays the costs associated with closing. Most sellers expect homebuyers to offer less than the listing price on their home. A seller will be much more open to negotiate when facing an offer of the full asking price. Another option is to meet the seller halfway, dividing the closing costs between both parties.

**A common misconception** about mortgage closing costs is that they all go to the lender, when in reality, many costs are related to services performed by others. Mortgage closing costs cover expenses associated with getting a home loan from inspections and appraisals to title insurance, taxes and more.  If a lender boasts incredibly low rates, it’s possible they will try to make up the difference with additional lender fees, so be sure to compare apples to apples.

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