Closing costs are often misunderstood. New home buyers often have a lot of questions like:

- Where do they come from?
- Who receives the money?
- Who pays them — seller or buyer?
- Is there really a no closing cost loan?

Investopedia tells us that,

> **"Closing costs occur when the title of the property is transferred from the seller to the buyer. The total dollar amount of closing costs depends on where the property is being sold and the value of the property being transferred. Homebuyers typically pay between 2% to 5% of the purchase price but closing costs may be paid by either the seller or the buyer."**

That's somewhat helpful, but let's look at a number of these costs, address them, and then ascertain who might pay them. Also, remember that our cost estimates are truly only estimates. You could find even wider fee ranges than we show below:

Appraisal fee ($300-$700)

Lenders will not offer you a loan until an independent third party has valued your property. If the appraisal comes in lower than the property purchase price, the bank will usually not lend the money. During the 2008 financial crisis, many blamed appraisers for artificially inflating real estate values as they were sometimes kicked back fees by banks or agents. This is highly illegal, however, and lenders today carefully vet each individual home appraisal. The buyer usually pays for the appraisal.

Home inspection ($300-$500)

According to NewsDay:

> **"A good home inspection can uncover repair and/or condition issues not readily apparent to the buyer. If the inspection turns up issues, the buyer can attempt to renegotiate the deal, and if the inspections was performed within the sales contract time limits, a troublesome inspection report can**

> **allow the buyer to back out of the sales contract. Buyers usually pay for this and it's worth it."**

Application fee (varies)

Some lenders charge this but sometimes buyers can ask for a waiver.

Attorney's fee (varies)

This can be a catch-all charge since many lenders have in-house lawyers. You can try to negotiate this out or convince the seller to pay for it.

Prepaid interest (based on loan amount)

Mortgage interest is typically paid in arrears. This means that you pay for interest accrued in March on April first. Interest accrues from the minute the loan closes, and your first payment usually isn't due for about a month. Therefore, at closing, you are charged for the interest that is due from the closing date until your first payment. The buyer pays this.

Origination fee (about 0.5% of loan amount)

This is simply a way for lenders to make more money by charging a small percentage of the loan to in effect make the loan to you. A half percent can be a lot of money–$2500 on a $500,000 loan, so try to get your lender to waive this.

Discount points (One point costs 1% of the loan amount)

We like Bank of America's explanation:

> **"Mortgage points, also known as discount points, are fees paid directly to the lender at closing in exchange for a reduced interest rate. This is also called "buying down the rate," which can lower your monthly mortgage payments. One point costs 1 percent of your mortgage amount (or $1,000 for every $100,000). Essentially, you pay some interest up front in**

exchange for a lower interest rate over the life of your loan.”

If you don’t want to buy down the interest rate, you won’t incur this cost.

Mortgage broker fee (0.50% to 2.75%)

Buyers sometimes use a mortgage broker because these agencies can shop the loan to multiple lenders. Only one application is needed, and the broker’s staff will babysit the transaction all the way to closing. Mortgage brokers will tell you upfront what the cost of their services will be. This is definitely buyer-paid.

Mortgage insurance application fee (varies)

Private mortgage insurance is required for some loans and loan amounts, but we don’t like this fee and urge you to ask whomever is demanding to waive it.

Property taxes (two months’ worth at least)

Most lenders will not allow your property taxes to go unpaid, so they take upfront money from you and put it in escrow so that they have control of tax payments. You have to advance them money at closing to start your escrow fund. Usually no way out of this one.

Homeowners insurance (depends on home value and location)

This is another item that lenders do not want to see unpaid, so you’ll have to escrow this money also.

Title Policy

There can be two necessary title polices—one for the seller and one for the buyer. You can negotiate who will pay for what.

There are other closing costs that you may discover, and prudent buyers will mentally set aside three percent of the total sales price for closing costs. If you are buying during a down economy in a buyer’s market, you can ask the seller to pay many of these costs and you may be successful.

If you are in a seller’s market, you can sometimes get your lender to add these costs on the back end of the loan. Either way, when your title company presents you that all-important page that lists all of the closing costs along with the net-to-seller proceeds, make sure you carefully scrutinize that list.