GUIDE TO CLOSING COSTS

Introduction and Terminology

Sales Price. For most home purchasers, the sales price is the most important term. Recognize that other non-monetary terms of the agreement are also important.

Title. "Title" refers to the legal ownership of your new home. The seller should provide title, free and clear of all claims by others against your new home. Claims by others against your new home are sometimes known as "liens" or "encumbrances." You may negotiate who will pay for the title search, which will tell you whether the title is "clear."

Mortgage Clause. The agreement of sale should provide that your deposit will be refunded if the sale has to be canceled because you are unable to get a mortgage loan. For example, your agreement of sale could allow the purchase to be canceled if you cannot obtain mortgage financing at an interest rate at or below a rate you specify in the agreement.

Pests. Your lender will require a certificate from a qualified inspector stating that the home is free from termites and other pests and pest damage. You may want to reserve the right to cancel the agreement or seek immediate treatment and repairs by the seller if pest damage is found.

Home Inspection. It is a good idea to have the home inspected. An inspection should determine the condition of the plumbing, heating, cooling and electrical systems. The structure should also be examined to assure it is sound and to determine the condition of the roof, siding, windows and doors. The lot should be graded away from the house so that water does not drain toward the house and into the basement.

Most buyers prefer to pay for these inspections so that the inspector is working for them, not the seller. You may wish to include in your agreement of sale the right to cancel, if you are not satisfied with the inspection results. In that case, you may want to re-negotiate for a lower sale price or require the seller to make repairs.

Lead-Based Paint Hazards in Housing Built Before 1978. If you buy a home built before 1978, you have certain rights concerning lead-based paint and lead poisoning hazards. The seller or sales agent must give you the EPA pamphlet "Protect Your Family From Lead in Your Home" or other EPA-approved lead hazard information. The seller or sales agent must tell you what the seller actually knows about the home's lead-based paint or lead-based paint hazards and give you any relevant records or reports.

You have at least ten (10) days to do an inspection or risk assessment for lead-based paint or lead-based paint hazards. However, to have the right to cancel the sale based on the results of an inspection or risk assessment, you will need to negotiate this condition with the seller.

Finally, the seller must attach a disclosure form to the agreement of sale which will include a Lead Warning Statement. You, the seller, and the sales agent will sign an acknowledgment that these notification requirements have been satisfied.

Other Environmental Concerns. Your city or state may have laws requiring buyers or sellers to test for environmental hazards such as leaking underground oil tanks, the presence of radon or asbestos, lead water pipes, and other such hazards, and to take the steps to clean-up any such hazards. You may negotiate who will pay for the costs of any required testing and/or clean-up.

Sharing of Expenses. You need to agree with the seller about how expenses related to the property such as taxes, water and sewer charges, condominium fees, and utility bills, are to be divided on the date of settlement. Unless you agree otherwise, you should only be responsible for the portion of these expenses owed after the date of sale.

Settlement Agent/Escrow Agent. Depending on local practices, you may have an option to select the settlement agent or escrow agent or company. For states where an escrow agent or company will handle the settlement, the buyer, seller and lender will provide instructions.

Settlement Costs. You can negotiate which settlement costs you will pay and which will be paid by the seller.

Your choice of lender and type of loan will influence not only your settlement costs, but also the monthly cost of your mortgage loan. There are many types of lenders and types of loans you can choose. You may be familiar with banks, savings associations, mortgage companies and credit unions, many of which provide home mortgage loans. You may find a listing of some mortgage lenders in the yellow pages or a listing of rates in your local newspaper.

Mortgage Brokers. Some companies, known as "mortgage brokers" offer to find you a mortgage lender willing to make you a loan. A mortgage broker may operate as an independent business and may not be operating as your "agent" or representative. Your mortgage broker may be paid by the lender, by you as the borrower, or both. You may wish to ask about the fees that the mortgage broker will receive for its services.

Government Programs. You may be eligible for a loan insured through the Federal Housing Administration ("FHA") or guaranteed by the Department of Veterans Affairs or similar programs operated by cities or states. These programs usually require a smaller down payment. Ask lenders about these programs. You can get more information about these programs from the agencies that run them. (See Appendix to this Booklet.)

CLOs. Computer loan origination systems, or CLOs, are computer terminals sometimes available in real estate offices or other locations to help you sort through the various types of loans offered by different lenders. The CLO operator may charge a fee for the services the CLO offers. This fee may be paid by you or by the lender that you select.

Types of Loans. Loans can have a fixed interest rate or a variable interest rate. Fixed rate loans have the same principal and interest payments during the loan term. Variable rate loans can have any one of a number of "indexes" and "margins" which determine how and when the rate and payment amount change. If you apply for a variable rate loan, also known as an adjustable rate mortgage ("ARM"), a disclosure and booklet required by the Truth in Lending Act will further describe the ARM. Most loans can be repaid over a term of 30 years or less. Most loans have equal monthly payments. The amounts can change from time to time on an ARM depending on changes in the interest rate. Some loans have short terms and a large final payment called a "balloon." You should shop for the type of home mortgage loan terms that best suit your needs.

Interest Rate, "Points" & Other Fees. Often the price of a home mortgage loan is stated in terms of an interest rate, points, and other fees. A "point" is a fee that equals 1 percent of the loan amount. Points are usually paid to the lender, mortgage broker, or both, at the settlement or upon the completion of the escrow. Often, you can pay fewer points in exchange for a higher interest rate or more points for a lower rate. Ask your lender or mortgage broker about points and other fees.

A document called the Truth in Lending Disclosure Statement will show you the "Annual Percentage Rate" ("APR") and other payment information for the loan you have applied for. The APR takes into account not only the interest rate, but also the points, mortgage broker fees and certain other fees that you have to pay. Ask for the APR before you apply to help you shop for the loan that is best for you. Also ask if your loan will have a charge or a fee for paying all or part of the loan before payment is due ("prepayment penalty"). You may be able to negotiate the terms of the prepayment penalty.

Lender-Required Settlement Costs. Your lender may require you to obtain certain settlement services, such as a new survey, mortgage insurance or title insurance. It may also order and charge you for other settlement-related services, such as the appraisal or credit report. A lender may also charge other fees, such as fees for loan processing, document preparation, underwriting, flood certification or an application fee. You may wish to ask for an estimate of fees and settlement costs before choosing a lender. Some lenders offer "no cost" or "no point" loans but normally cover these fees or costs by charging a higher interest rate.