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WHAT TO EXPECT ON THE HUD CLOSING STATEMENT

The parties to a real estate sale may negotiate on who will pay certain closing costs. In the absence of an agreement, local custom calls for each party to pay those closing costs related to that portion of the transaction for which they are responsible. Some of those costs and who usually pays them are described below.

The information below will give you a rough idea of what you will expect to see on the HUD or Settlement Statement at the time of closing, what fees are paid by the Seller and what fees are to be covered by the Buyer. These fees may vary based on the area, the property, the purchase price or the lender's requirements.

When a buyer asks to have his closing costs covered by the seller they must be made aware that this money is in essence coming out of the buyer's loan and they are really paying it themselves over the term of the mortgage. The Lender will usually only allow the Seller to pay up to 3% or as much as 6% of the Buyers closing fees depending on the loan programs requirements. You may want to look into how much interest will be paid on that few thousand dollars over say a 30 year period and the possible tax benefits of this. Having these fees paid within your loan or by the seller may give you even more benefits when you consider that a lender gives you a better interest rate when you have a higher loan amount and with more money to put on a down payment the lender will qualify you for a larger amount. The major downside of this is that the Seller may not view you as a buyer with solid purchasing power and may not be as willing to work with you to get the deal accepted.

There are also Buyer's Down Payment Assistance Programs that can be wrapped into the loan. The lender will usually allow you to use from 3 – 9% of the purchase price Down Payment Assistance based on the loan program and the property's appraised value.

In order to use Seller Paid Closing Costs or Buyer's Down Payment Assistance Programs you will need to be sure that you are buying the property for that much under market value because a Lender will not make a loan for more than the appraised value of the home. If the home does appraise for too low to fold those costs into the loan then you may ask the Seller if he would consider taking back a second loan for you. If a Seller needs to get out from under the home and will have some equity in the home after his loan payoffs have been made then this could be very advantageous to both you and to the Seller.

There are many creative ways to put a deal together you make ask your Real Estate Agent, however your Loan Officer will be able to up date you on the many financing programs that are available. Be sure to ask your Loan Officer to give you a copy of your Good Faith Estimate after he has plugged in the exact numbers for the property that you are purchasing so that you will know exactly what to expect to pay at closing.

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	Definition of Closing Costs	Seller Paid Fees	Buyer Paid Fees
	<u>Abstract</u> An abstract is a summary of the history of ownership of the property. If an existing abstract needs to be updated or continued, the cost will be lower than if a complete, new abstract must be prepared. An update usually costs between \$75 - \$150. A new abstract in Ohio or Michigan can cost upwards from \$250 - \$400. The cost for an abstract is usually paid by the Seller.	<u>Abstract</u> Update \$75 - \$150 Complete \$250 - \$400	
	<u>Appraisal</u>		<u>Appraisal</u> \$250 - \$400
	<u>Real Estate Agent/Broker Commissions</u>	<u>Real Estate Agent/Broker Commissions</u> Buyers Agent 2% - 3% Seller's Agent 2.5% - 4%	
	<u>Down Payment</u> Most lenders require a borrower to pay at least 10% of the purchase price as a down payment but certain loans or government loan programs require less or even no down payment. With a good credit rating you may be allowed as low as a 3% down payment. Ask about down payment assistance programs.		<u>Down Payment</u> <u>Percentage of Purchase Price</u> 3 – 10%
	<u>Loan Origination Fee, Points</u> A loan origination fee is a lender's fee to a borrower for establishing a new loan. Conventional loan origination fees may be 1 to 3+ points. A point is 1% of the loan. The LO gets paid by the Lender that is buying the loan based on the interest rate and how large the loan amount is. It is usually best not to pay points.		<u>Loan Origination Fee, Points</u> 1% of the loan per point
	<u>Appraisal Fee</u> An appraisal fee is paid to an appraiser to obtain an estimate of market value upon which the lender will base the loan amount. The cost is about \$300-\$400. This fee is usually paid by the buyer.		<u>Appraisal Fee</u> \$300-\$400
	<u>Credit Report</u> A credit report is an evaluation of the buyer's credit habits made by a credit bureau for the lender. The cost is \$50-\$60 and is usually paid by the buyer.		<u>Credit Report</u> \$50-\$60
	<u>Tax Service Fee</u> A tax service fee is a charge of approximately \$75 by a tax service company to verify to the lender that taxes have actually been paid when due or are due to be paid by a borrower or mortgage company if impounding.		<u>Tax Service Fee</u> approximately \$75
	<u>Inspection Fees</u> Inspections the buyer may choose to have done may include a general property inspection that usually cover foundation, electrical, plumbing and overall construction at a cost of \$200 - \$300. Roof inspections cost \$75-\$125. Septic inspections may cost between \$200-\$400. Homes built before 1978 Lead Base Paint/Asbestos		<u>Inspection Fees</u> \$200 - \$700 \$200 - \$300 structural, mechanical \$ 89 Wood boring Pests \$ 95 Radon \$ 300+ Mold \$ 45 Carbon Monoxide
	<u>Title Insurance</u> Title insurance covers title defects and even certain unrecorded liens, is based on the loan amount or purchase price and is required by almost all lenders. The cost depends on the amount of the loan, for a lender's policy, or the purchase price, for an owner's policy. A title insurance policy for a lender does not insure owners so the owner may want to buy their own policy. The cost for title insurance is usually paid by the buyer/borrower. Closing Fee \$165, \$23 per pay off overnight fee. Buyer \$215, Shipping \$55, Wire	<u>Title Insurance</u> \$3 per \$1000 plus \$350 Closing Fee \$165, \$23 per loan pay off overnight fee	<u>Title Insurance</u> \$215, Shipping \$55, Wire fee \$15

	fee \$15		
	<u>Title Examination Fee</u> The title to the property is reviewed for liens, mortgages, easements or defects. This fee is sometimes added directly to the cost of title insurance or may be a separate item on the settlement statement. This is usually paid by a buyer.	<u>Title Insurance – Title Exam & Settlement Fee</u> \$3 per \$1000 plus \$350	<u>Title Examination Fee</u> \$150 - \$200.
	Definition of Closing Costs	Seller Paid Fees	Buyer Paid Fees
	<u>Deed Preparation</u> This is like a bill of sale for real estate. This cost (\$60) is usually paid by the seller.	<u>Deed Preparation \$60</u>	
	<u>Plat Sketch</u> A plat sketch is a sketch of the boundaries of a piece of real estate used to determine whether buildings or other improvements are actually located on the property and that the neighbors' buildings or improvements do not encroach on the property to be financed. The cost for a plat sketch (between \$60 - \$75) is usually paid by the buyer.		<u>Plat Sketch</u> between \$60 - \$75
	<u>Deed Tax</u> A deed tax is a state tax. The cost is \$3.30 per \$1,000 of the selling price. This tax is usually paid by the seller.	<u>Deed Tax</u> \$3.30 per \$1,000 of the selling price	
	<u>Miscellaneous Costs & Fees</u> An estimate of \$150 should be considered to cover other items such as recording fees and document preparation, as well as allowing for variations from these other estimates.		<u>Miscellaneous Costs & Fees</u> An estimate of \$150
	<u>Hazard Insurance Reserve</u> If hazard insurance is to be paid monthly to the lender, a portion of the next premium is collected for the escrow account in order to ensure that enough money is impounded to pay the premium when it comes due. The buyer will usually need to either provide or pay for coverage for the 1st year. If you have seller paid closing costs then add the buyer's insurance payment into it to be sure to hit your 3 or 6%		<u>Hazard Insurance Reserve</u> The buyer will usually need to either provide or pay for coverage for the 1st year.
	<u>Recording Fees</u> Charges by the County Recorder to record deeds, mortgages, satisfactions of mortgage or other documents required to clear or transfer title are collected by the closing agent. In most counties, the cost is \$20.0 for each page and each party may be required to record one or more documents, depending on the transaction.	<u>Recording Fees</u> \$20	<u>Recording Fees</u> < > \$200
	<u>Prepaid Interest</u> A borrower often must pay interest from the date of closing to 30 days prior to the first regular mortgage payment.		<u>Prepaid Interest</u> A borrower often must pay interest from the date of closing to 30 days prior to the first regular mortgage payment.
	<u>Mortgage Insurance</u> Mortgage Insurance usually is required on conventional loans greater than 80% of appraised value. The cost may range from 1/2% to 1% per year and 14 months premium is often collected in advance. This is coverage for the lender in case of default. The premium is paid by the buyer.		<u>Mortgage Insurance</u> 1/2% to 1% per year and 14 months premium is often collected in advance.
	<u>Mortgage Registration Tax</u> Mortgage registration tax is a state tax charged by the State of Minnesota for giving a mortgage. The tax amounts to 23¢ per \$100 of mortgage amount. This tax is usually paid by the buyer/borrower.		<u>Mortgage Registration Tax</u> 23¢ per \$100 of mortgage amount
	<u>Tax escrow (impound)</u> If the new loan is going to have an escrow account for the payment of taxes and insurance, the lender will require from 2-10 months taxes to be deposited at the time of closing, depending on when the next taxes or insurance need to be paid out of the escrow account. These sums are paid by the buyer/borrower.		<u>Tax escrow (impound)</u> 2-10 months taxes to be deposited at the time of closing, depending on when the next taxes or insurance need to be paid
	<u>Underwriting/Credit Fees</u>		<u>Underwriting/Credit Fees</u> \$125 - \$450

	<u>Processing Fees</u>		<u>Processing Fees</u> \$125 - \$450
	<u>Tax Service Fee</u>		<u>Tax Service Fee</u> \$65
	<u>Definition of Closing Costs</u>	<u>Seller Paid Fees</u>	<u>Buyer Paid Fees</u>
	<u>Flood Certification Fee</u>		<u>Flood Certification Fee</u> \$10 - \$25
	<u>Property Survey or Survey Coverage</u>		<u>Property Survey</u> \$200 - \$400 <u>Survey Coverage</u> \$100- \$150
	<u>Mortgage Insurance</u>		<u>Mortgage Insurance</u> \$0 - \$500
	<u>Closing Fee</u> Closing fees are paid to the closing agent for closing the transaction. These fees range from \$150 - \$350, depending on the complexity of the closing. Usually the buyer pays a fee to close a loan if there is financing and a seller pays a fee for the work needed to transfer ownership of the land to the buyer. Each party may hire their own closing agent, though, to ensure that their part of the transaction is properly handled. Or the parties may choose to hire the same closing agent to close both the seller's and the buyer's portion of the transaction.	<u>Closing Fee</u> \$150 - \$350	<u>Closing Fee</u> \$150 - \$350

■ What is a Closing?

Closing is the final step of a real estate transaction and includes depositing money and documents by the parties to the transaction with a third party who holds them according to the terms of the purchase agreement or loan closing instructions.

■ The Closing Agent is:

- A custodian for funds and documents.
- A clearing house for payment of liens, mortgages or other debts against the property.
- An agent to perform the details for the settlement of accounts between parties and lien holders.

■ What is a Title Opinion?

A title opinion is a letter opinion prepared by an attorney giving the lawyer's opinion concerning ownership of a parcel of real estate and liens that may encumber it. From that opinion, a buyer or lender make decisions about whether steps need to be taken prior to closing or at closing to resolve title defects or satisfy liens as part of the transaction.

■ What is a Policy of Title Insurance?

Title insurance is an insurance policy which insures the condition of "title" of a particular piece of property. Title insurance policies may be issued to the buyer, the lender, or both. A policy issued to a lender does not insure the owner.

■ What is a Title Insurance Commitment?

The commitment is a promise to issue a title insurance policy to insure the title to property so long as certain conditions are met. A title insurance commitment shows who owns a parcel of land and lists title defects, liens and encumbrances. The commitment lists those conditions necessary to close the sale or loan and which are required to transfer ownership to the buyer and protect the lender's mortgage or the buyer's purchase.

■ How does title insurance differ from a title opinion?

A title opinion is simply a lawyer's opinion, often with limitations and conditions concerning the extent to which the opinion may be relied upon in the transaction. Title insurance offers the advantage of an express contract in favor of the insured that the title insurance company accepts the financial responsibility to protect the insured party from claims that may be asserted against the title to the property. Title insurance also gives the insured coverage for

the payment of legal costs if the title insurer has to defend title against a covered claim.

Closing Agent's Responsibilities

A closing/title agent:

- Reviews the title insurance commitment or title report.
- Receives buyer's funds.
- Complies with lender's instructions.
- Prepares documents required to close the transaction.
- Records documents with county recorder.
- Disburses monies and documents to the appropriate parties.
- Prepares final closing statements for buyers and sellers.
- Issues a title insurance policy.

Properties that are willing to lease or land contract