

10 Things You Should Know about Closing Costs

CLOSING COSTS WILL INEVITABLY TAKE A LARGE BITE out of your wallet at the settlement table – anywhere from a few to several thousand dollars – but why pay any more than you have to? The information in this article will help you better understand closing costs and teach you the right questions to ask your title or real estate agent.

1. **Homebuyers who shop title service providers save big.** A recent study commissioned by Federal Title & Escrow Company based in Friendship Heights found that District of Columbia homebuyers who [shop title service providers](#) save as much as \$1,180 at closing, while Maryland and Virginia homebuyers save upward of \$900. Needless to say, not every title agent was thrilled by the results of the [apples-to-apples comparison](#).

2. **Some closing costs are tax-deductible.** The big one to keep in mind here is any money you paid in points at closing to "buy down" the interest rate of your loan. You may also deduct pre-paid mortgage interest and property taxes paid at settlement. It's important to note however, to claim these deductions you must itemize your return and forego the standard deduction. For homeowners interested in what they can and cannot deduct post-closing, see the IRS's very thorough article on [homeownership costs that are tax-deductible](#).

3. **You must account for closing costs along with your down payment.** In today's real estate market, don't count on a loan to help cover your closing costs. Lenders want to see the homebuyer has enough cash on hand to meet these expenses and still have approximately 6 months of reserves left over once dust from the transaction settles.

4. **Closing costs run roughly 3% to 6% of the purchase price.** How much you pay in closing costs depends largely on where the property is located. For example, District homebuyers will pay higher closing costs than their Maryland or Virginia counterparts for a property with the same purchase price because [title insurance policy premiums](#) are higher in D.C. In the last couple years, it's become increasingly common for the home seller to pay at least a portion of the homebuyer's closing costs, if not all. To lower your closing costs, consider asking the seller for settlement help in your sales contract.

5. **Ask about "standard" title insurance vs. "enhanced" title insurance.** The type of title insurance policy you purchase will also affect closing costs. Some title companies push enhanced title insurance without providing the consumer with a proper disclosure that a less expensive standard policy is available. For many homebuyers a standard policy will suffice. It's a good idea to [compare standard vs. enhanced title insurance](#), and make sure to ask your title company what types of insurance products they offer. Talk with your lender and settlement attorney to determine what policy is appropriate for your home investment.

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A steal of a deal in the DC real estate market is increasingly rare, but by understanding your closing costs, you can make sure you're not overpaying on the backend of your real estate transaction.

6. **Closing cost discounts do exist.** A handful of independently owned title companies in Washington, DC offer homebuyers an instant rebate on their closing costs. Federal Title pioneered this practice in the DC area by introducing its [REAL Credit™](#) program over a decade ago. Even if your chosen title company can't offer you an instant rebate, it's fair to note that any title company may be able to provide you a full Reissue Rate discount if your property is located in DC or Maryland. Typically, in order to qualify: 1) the seller must provide a copy of his or her owner's title insurance policy; 2) that policy must be less than 10 years old; and 3) the coverage amount must equal or exceed the new purchase price.

7. **Some closing costs are fixed while others are variable.** The cost of your title insurance policy and government recordation fees are dependent on the purchase price of your home, and the bulk of settlement costs are typically paid by the homebuyer. However, the seller doesn't get off scot-free. [Seller fees](#) include a fee for mortgage release procurement and deed preparations. The settlement fee is often split between buyer and seller. [Homebuyer fees](#) include a title examination/abstractor fee, location survey fee and a fee to process paperwork. A title company may charge additional fees unique to each transaction, but the extent of the fees should be disclosed up front.

8. Closing costs should not change (much). Your lender's Good Faith Estimate will give you a good idea of your settlement charges long before you receive a list of actual costs on your HUD-1 Settlement Statement at closing. For the most part, you shouldn't see much discrepancy between the two forms, as your lender is legally obligated to stay within what's known as "tolerance limitations" when it comes to most settlement charges.

Instructions

Understanding which charges can change at settlement

This GFE estimates your settlement charges. At your settlement, you will receive a HUD-1, a form that lists your actual costs. Compare the charges on the HUD-1 with the charges on this GFE. Charges can change if you select your own provider and do not use the companies we identify. (See below for details.)

These charges cannot increase at settlement:	The total of these charges can increase up to 10% at settlement:	These charges can change at settlement:
<ul style="list-style-type: none"> ■ Our origination charge ■ Your credit or charge (points) for the specific interest rate chosen <i>(after you lock in your interest rate)</i> ■ Your adjusted origination charges <i>(after you lock in your interest rate)</i> ■ Transfer taxes 	<ul style="list-style-type: none"> ■ Required services that we select ■ Title services and lender's title insurance <i>(if we select them or you use companies we identify)</i> ■ Owner's title insurance <i>(if you use companies we identify)</i> ■ Required services that you can shop for <i>(if you use companies we identify)</i> ■ Government recording charges 	<ul style="list-style-type: none"> ■ Required services that you can shop for <i>(if you do not use companies we identify)</i> ■ Title services and lender's title insurance <i>(if you do not use companies we identify)</i> ■ Owner's title insurance <i>(if you do not use companies we identify)</i> ■ Initial deposit for your escrow account ■ Daily interest charges ■ Homeowner's insurance

To know which closing costs could change, think of settlement charges as "3 Buckets," which are outlined on your Good Faith Estimate.

To know which closing costs could change, think of settlement charges as "3 Buckets." The first bucket includes your lender's origination charges, points you paid to "buy down" your interest rate and transfer taxes. Charges in the first bucket cannot increase at all. Charges in the second bucket may increase up to 10% and include title services & lender's title insurance policy (lumped together on line 1101 of your HUD-1), owner's title insurance policy and government recording charges. Bucket three includes charges that can change at settlement, including daily interest charges and homeowner's insurance, amounts that depend on your closing date.

9. Roughly 70% of closing costs that are variable are title-related. That's a pretty large number to leave to chance. It may not be a bad idea to get a [closing cost quote](#) on your own from at least a couple title service providers just to make sure you're getting the best deal possible. Several local companies offer free and anonymous closing cost calculators to help you shop and compare rates.

10. Referral fees increase closing costs. Did you know just 5% of title insurance premiums went toward insurance claims, according to the Government Accountability Office? A far greater percentage (some reports claim 50% or more), went to real estate agents and mortgage lenders for referral fees. This practice, a product of the affiliated business arrangement, is legal but anti-consumer. Homebuyers' best protection against high closing costs is education – simply knowing they have the right to choose their title company, asking about discounts and learning about what options are available.