

What Are Closing Costs and Who Pays for Them?

The various fees associated with buying or selling a home are called closing costs. Buyers and sellers both pay closing costs but who pays what costs varies from area to area. For example, in Los Angeles, sellers usually pay for title insurance. In San Francisco, it's customarily paid for by the buyer.

Buyers typically pay the following closing costs: fees charged for obtaining a mortgage; inspection fees; homeowner's insurance (must be prepaid for one year at closing); transfer taxes if there are any (although the seller may pay these or they may be shared 50-50 between buyer and seller); title insurance and escrow fees (depending on the location); and attorney's fees (where attorneys are involved in the transaction). Your real estate agent or mortgage broker can tell you which fees are customarily paid for by the buyer in your area and how much they'll cost.

Sellers' closing costs typically include: loan payoff fees; the real estate commission (in some cases, a portion of this may be paid by the buyer); title insurance (depending on the location); termite repairs (this is negotiable in some areas); all or part of transfer taxes and escrow fees, if there are any; attorney's fees where applicable; and other fees set by local custom or negotiated during the transaction. Sellers can get an accounting of the closing costs they're likely to pay from their listing agent.

First Time Tip: The most expensive closing cost a buyer pays is often the loan origination fee. Lenders charge points to originate a loan. One point is equal to one percent of the loan amount. A \$240,000 loan with a 1 point fee will add \$2,400 to your closing cost bill. This charge can be eliminated if you take a no-point loan. You'll pay a higher interest rate on a no-point loan, but you'll conserve cash. If you don't plan to stay in the home for more than a few years, it may be cheaper in the long run to take a no-point loan and pay the higher interest rate.

Most lenders allow parents to give money to their children to use for a home purchase as long as the parents are willing to stipulate that the money doesn't have to be repaid. However, lenders usually require that the borrowers have some of their own money invested in the property. For example, a lender would probably approve a loan for buyers with good credit if they had enough of their own money for a 5 or 10 percent cash down payment and gift money from their parents for the closing costs. Also, there are loan programs for low-cash down buyers that allow the buyer to finance some of the closing costs.

Another way to generate cash to pay for closing costs is to ask the seller for a cash credit at closing. Lenders have restrictions on how much a seller can credit to a buyer (often no more than 3 to 6 percent of the selling price). And some lenders will only allow credits for nonrecurring closing costs, that is, closing costs like title insurance that are paid on a one-time-only basis. Keep in mind that when you ask the sellers for a credit, you are, in effect, asking them to lower the price of their property. If the sellers give you a \$5,000 credit, their proceeds will be reduced by \$5,000.

The Closing: Buyers who are competing with other buyers may want to increase their offer price by \$5,000 to offset their request for a \$5,000 credit.

