



Closing Costs Explained

Many people only think about getting the very best interest rate when trying to find the right mortgage home loan. Yet there are several other important costs to consider when searching for a home mortgage. One of the biggest costs can be the closing costs associated with the processing of your loan. It is a good idea to understand what goes into typical closing costs so that you can find a lender that does not overcharge you in that area.

Perhaps the largest expense included in the closing costs is the loan origination costs, otherwise known as points. A point is defined as a one percent of the total loan value. Borrowers pay points to cover lender's costs for handling loans. They are also used to "buy down" the interest rate. The more points you pay, the smaller your interest rate will be. You should be prepared to work with a lender to determine the right amount of points for your situation.

Another standard part of closing costs is the appraisal fee. This is simply a cost that the lender passes on to you, the borrower. A licensed appraiser must be hired to examine the home you want to buy in order to guarantee the lender that the investment is worth the money they are loaning you. The lender does not profit from this appraisal fee; the money goes directly to the appraiser for his work.

You can also expect to see a credit report fee show up in your closing costs. This should not be a very large expense, and it the money necessary to request copies of your credit report from the major credit reporting agencies. Lenders need this information to be sure that you have a reliable history of repaying your debts. Each credit bureau requires a small fee to release this information and that cost is passed on to you.

You might also have to pay a mortgage insurance premium as part of the closing costs. Private mortgage insurance is required if your contributed down payment is less than 20% of the sale price. It will be a continuing cost until your home equity rises to a certain level, but you may be required to pay the first premium when the loan closes.

There are several other types of insurance that will be required at closing. These will likely include a year's worth of coverage with hazard insurance and perhaps flood insurance, depending on your area. You will also have to pay for general homeowners' insurance. There may be others required based on your state.

Another cost you will face is the attorney fees in connection with title searches. A title search is a standard part of a mortgage deal. It involves researching the history of transactions made on the home and any major problems associated with the home's past. This also provides you and the lender with peace of mind knowing that all prior issues have been cleared up.

There may be several other miscellaneous fees required by lenders in closing costs. Make sure you get a clear explanation from your lender about the basis for each charge. You should do your best to get estimates of closing costs before choosing a lender in order to get the best deal on your loan.