Avoid Paying Unnecessary Fees by Lowering Your Closing Costs—Here’s How

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The hardest part’s over because you’ve found the perfect house. Now you have to go through negotiations to buy the house and determine your closing costs.

Closing costs are expenses in the home-buying process that typically equal 2% to 5% of your loan’s value, which can make them very pricy if you’re buying an expensive property.

Borrowers might be able to reduce closing costs with the right negotiation tactics. Wondering how to lower closing costs? Here are several tips to try before you sign off on your purchase.

What are closing costs?

Closing costs are fees that occur when finalizing a real estate transaction on the sale or purchase of a house. Once the property is transferred into your name, these fees are due. Both homebuyers and sellers pay closing costs, but it varies who pays which closing costs and how much they pay.

A home loan amount, a property’s location, and a home buyer’s credit score are some of the factors determining closing costs. Some state laws also require professional services that increase a transaction’s closing costs.

Many closing costs are negotiable among homebuyers, sellers, and mortgage lenders. If you’re buying a property, it’s crucial to research and shop around for home loans before choosing a lender.

Can closing costs be negotiated?

There is some negotiation possible, and the following includes ways to possibly lower your closing costs.

Did you review your loan estimate form?

Before you close on your home, your chosen lender will provide you with a contract covering all the details of the agreement. In it, you’ll find information such as your monthly payment amount and interest rate, as well as the percentage owed for closing costs. Remember that things like a low credit score can contribute to a higher interest rate, so try to have more than the minimum credit score.

In reviewing these numbers, you might find that your closing costs are higher than what you’re willing to pay. Don’t hesitate to shop around at other banks and lenders, which might offer you a better deal, including lower closing costs.

Did you research lender fees?

Double-check the lender fees you have to pay to obtain your loan, as you can sometimes save money here, too. Your lender will charge an origination fee. You probably can’t get out of paying this, but your loan agreement could contain other negotiable fees. There’s no harm in asking your lender about these.

This is an area in which it would help to have other loan possibilities for reference. If your chosen lender tacks on more fees, show them your options and negotiate a lower rate or move on to a new lender.

Do you know what you are paying for?

It’s vital to understand closing costs before you go into negotiations. Of course, you have your responsibilities as the buyer—you must pay the application fee, attorney fees, credit report fees, and more. But you should also know what the seller should cover on their end of the deal.

For example, they should contribute to the closing costs, especially when the market is working in the buyer’s favor. To that end, the seller should also cover the real estate agent commissions.

Can you add the closing costs to your mortgage?

You can lower or avoid paying closing costs upfront by folding them into your mortgage. Some lenders will be open to this option, wherein they pay the closing costs for you upfront and then tack that price into your home loan.

This will save you cash in the short term, but you will end up paying more for your closing costs over time since your loan repayments will come with added interest.

Did you look for financial aid?

First-time homebuyers might be able to get a bit of financial relief when they purchase a property. Many grants can help lower the costs of the home-buying process to encourage more people to get into the real estate market.

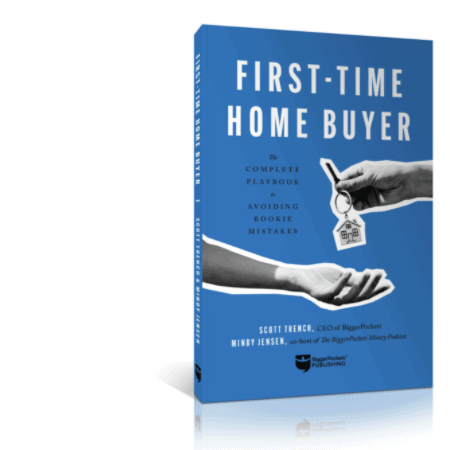
For instance, if you choose a Fannie Mae loan to buy one of their foreclosed properties, you might be eligible for closing costs as low as 3%. There are also loan programs for those who have, for example, poor credit history, a low down payment, or veteran status.

Local governments or nonprofit organizations may also provide grants for the home-buying process. These programs mostly favor first-time home buyers, and they help cover your down payment and/or closing costs.

Did you research vendors?

As soon as you get your loan, skip to the part where it describes the vendors who can help you through the closing process. Sometimes the people selected by your bank will charge more than ones you can find yourself.

Do your due diligence to ensure you have the least expensive vendors possible. You can ask your lender for other potential vendors they might not have listed on the loan. This research could save you hundreds of dollars in closing costs.

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How to lower closing costs

When figuring out how to lower closing costs, it’s most important to understand where you can save money. Even though each real estate deal is different, there are typical closing costs that homebuyers can expect.

Application fee: Before applying for a mortgage, ask your lender if they charge an application fee. If so, make sure you understand what it covers. Application fees are sometimes negotiable, but you might need leverage in your negotiations. That’s why it’s essential to shop around and know what other lenders charge for an application fee.

Appraisal: In most deals, you’ll need to pay an appraisal company to assess the property’s fair market value. Sometimes though, you won’t have to pay this fee, so be sure to discuss with your lender.

Association dues: If you’re buying a property in a homeowners or condo association, you may have to pay your annual association dues at closing. The buyer and seller can split this cost, and you may owe only a prorated amount of the association’s annual dues if you buy a property partway through the year.

Attorney fees: Some states require lawyers to review a real estate transaction’s closing documents. If so, both the buyer and seller have their own legal representation.

Courier fee: Your lender may use a courier to deliver documents required to close a deal. Doing so can expedite finalizing the transaction, but you may pay for this courier fee as a result.

Credit report fee: Your mortgage lender will run a tri-merge credit report. The reports are your credit scores and history from the three major credit bureaus. Depending on the lender, you may not get charged for this, but you’ll have to ask.

Discount points: These “points” represent money you pay your lender at closing to receive a lower mortgage rate. One discount point equals 1% of your home loan amount in exchange for dropping your interest rate by 25 percent. For example, if you pay your lender $1,000 on a $100,000 mortgage loan, your 4% interest rate drops to 3.75%.

It’s important to have a conversation with your lender about what your options are with these points, especially since points are not required. Using points makes sense on paper but paying more upfront may not work for everyone. For those who don’t plan to live in their home long-term or are likely to refinance, this isn’t the best option.

Escrow deposit and fee: Many lenders require you to have an escrow account for your expected property taxes and homeowner’s insurance premium. Your lender makes your insurance and tax payments for you using the money you deposit into your escrow account.

If you’re required to set up an escrow account, a title company, escrow company, or a lawyer will manage the process. They’ll charge a fee for doing so. Often, home buyers and sellers agree to split this cost. You can ask about these costs upfront to make sure they fit within your budget.

(Pro tip: It’s always a good tip to confirm with your city or county that your taxes have actually been paid!)

Flood hazard determination fee: The U.S. government requires a flood risk assessment for all real estate transactions. A third party handles the evaluation, and they’ll charge you a fee for their service. You’ll have to pay for flood insurance if they determine your property is in a flood zone. Be sure to keep this possible expense in mind when choosing a property.

Homeowner’s insurance: Homeowner’s insurance is usually not required by law, yet most lenders require it. It is a good idea to have it in case of damage to the property, and you’ll usually pay your first year’s insurance premium at closing.

Mortgage broker fee: You can hire a mortgage broker to help you find mortgage loans. If you do, they’ll charge you a commission based on the percentage of your loan amount. This is usually between 0.5% and 2.75% of the property’s purchase price. To save money, you could look for loans yourself.

Origination fee: Most lenders charge a loan origination fee when processing your home loan application, which is usually 1% of your loan amount. Not all lenders charge an origination fee, however, so, again, it’s essential to research different mortgage lenders.

Private mortgage insurance (PMI): Lenders usually require you to carry private mortgage insurance if your down payment is less than 20% of your home loan amount. The PMI covers you if you miss a mortgage payment. Lenders have varying PMI percentages, but they usually range from 0.5% to 2.3% of your loan amount. There are four ways to pay for your PMI premiums:

* Upfront: You pay the entire cost of your PMI at closing.
* Split: You pay part of your PMI costs upfront, and your lender folds the balance into your monthly mortgage payment.
* Monthly: You pay nothing on your PMI at closing, and your lender adds your entire PMI balance to your monthly mortgage payment.
* Lender-paid: Your mortgage lender covers your PMI costs in exchange for raising your interest rate; this method can save you money at closing but cost you more over time.

Recording fees: Local governments require a copy of your title before it will recognize you as the property’s legal owner. Your title company usually handles this transaction, and they’ll charge you a fee for that service. However, that’s not always the case, so be sure to ask.

Title search fee: Before you can purchase a property, someone must verify its ownership. A title company handles this process, ensuring no one else can claim the property after you purchase it. The company charges a fee for this service, and it often comes hand-in-hand with title insurance, which protects the buyer from future claims against the property. This fee varies by location and property; it ranges from $200 to $1,000. You can save money by searching for a title company within your budget.

Overall, to save money, you should compare lenders and their fees to make sure you’re getting the best possible deal. You’ll see these fees on a document called a closing disclosure. These are the different costs to consider when buying a home.