Typical Purchase and Closing Costs

Vee Real Estate Brokers are not attorneys or loan officers, and are in no way providing legal advice. The information and opinion provided is for reference, so you may prepare, and is not necessarily comprehensive or all-inclusive.

If you need financing to buy a home, do not change your income, savings or debts in <u>any</u> way before you obtain a loan *commitment*- not just an "approval". Do not make big purchases in general- particularly do not *finance* any purchases like a new car, furniture, renovation materials, etc. *before* <u>closing</u> without conferring with your lender first. Do not change jobs. Do not apply for personal loans or credit cards. If you are a co-signer for someone else, and they are delinquent on *their* account, <u>*your*</u> credit will be affected.

Tip: Expect to encounter an occasional extra cost- or a fee which ends up higher than anticipated. They can vary based on a number of circumstances. You will better adapt by factoring in a few hundred dollars "padding" into your cost calculations. Extra inspections, insurance coverage add-ons, supplemental legal preparation are just a few examples of worthwhile and often necessary incremental expenses in a purchase transaction.

There's a long list of purchase, loan, title/legal expenses, collectively referred to as "closing costs", all of which are itemized on the standard Loan Estimate you'll get from the lender.
Pro Tip: Some of these fees are negotiable. It takes an experienced, knowledgeable broker to guide you…
Pro Tip: Do not accept seller closing cost credits, or credits in lieu of repairs without checking with your lender (there are limitations).

Transaction Fee, Brokerage Fee, Admin Fee, Sales Fee (and other names)
This is a fee charged by most real estate companies, over and above the commission they typically receive from the seller for procuring you, the buyer. This is nothing but an add-on cost to you. And while legal, seems self-interested to us. Vee Real Estate Brokers will never charge you fees like these, typically $249-695 but can be more- whatever the broker thinks they can get away with…

Downpayment
The cash contribution you make toward the purchase when obtaining a loan; It can be a little as 0% of the purchase price, depending on the structure of the loan and if you qualify for certain incentive programs (typically available for modest-income or first-time borrowers). But commonly is 10-20%, or more to reduce mortgage payments or qualify for a lower interest rate.

You downpayment is separate money from all other costs and fees, but *is* related to both the Due Diligence, and Earnest Money (sometimes called Good Faith Money) payments you make as part of your offer to a seller. They will be credited toward your downpayment. Suggestions of "typical" DD and EM vary widely, from % amount of contract price to flat dollar figures.
Pro Tip: It depends on the purchase opportunity specifics; and is a tool in contract negotiations.

Housing payment/mortgage "reserves"
If you're getting a loan, your lender will not let you spend every dollar you have on the purchase. The loan underwriter- the bank representative who critically analyzes your financial strength, income, the purchase contract terms, etc. to make sure you're not going to default on the loan- will typically require 2-3 months full housing payments remain in your cash or non-retirement investment accounts.
Fannie Mae Guide

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Credit Report
From two or more credit-reporting agencies (Equifax, Transunion, Experian) for *all* borrowers.
Free Credit Report (this is for your advance reference; bank will likely need to use their own) $30-$75

Loan Origination or Broker Fee (and origination points)
Covers lender's administrative costs. Varies, and can be negotiated, but typically around 1% of loan amount. $1000-2500
Note: Under N.C.G.S 24-1.1A(c)(1), transactions in North Carolina may not have fees paid to the lender that exceed 1/4 of 1% of the loan amount (or $150 whichever is greater). Fees such as application, origination, commitment, and interest rate lock fees have special exemptions. Most Lenders in NC do have a Lender Fee, Processing Fee or Underwriting Fee. That fee can be listed as an Origination Fee on your loan estimate. This is generally done in NC so the borrower can write off the charges on their tax return.

Processing and/or underwriting Fee
May be included in Origination Fee, or may be quoted as one or two separate fees for these purposes, to pay for the lender's employees who source and process your loan, gather documentation (e.g. bank statements, verification of employment), coordinate with third parties like appraisers, and manually review and verify your application information to approve the loan. $300-$900 each

Administrative Fee(s)
Miscellaneous lender charges. Likely included in the Origination Fee. $100 or more

Lock-in fee, Application fee
Lenders typically do not charge application fees or fees to lock your rate, particularly in times of lower mortgage origination activity. In some states, application fees are illegal. You should be able to find a lender without these fees. $200-500

Loan-Level Price Adjustments (LLPAs)
For conventional loans backed by Fannie Mae and Freddie Mac, LLPAs are charged for 'higher-risk' loans (e.g. low down payment and/or low credit score). These are typically paid via a higher interest rate, not an upfront fee. But it's valuable to know what they are. $0-4% of loan amount

Discount Points (not to be confused with *origination points*, which are just an added fee)
One-time charge, used by lender to adjust the "yield" on the loan, ultimately lowering the interest rate. The lender is not allowed to use these funds for overhead or profit. Each point is equal to 1% of loan amount.; and each point tends to buy down the interest rate by 1/8%, so 8 "points" paid on the loan upfront will more-or-less equal the interest paid on 1% of the loan over the life of the amortization (typically 30 years). How much each discount point reduces the loan interest rate varies by lender and loan product, changing almost daily in response to finance market activity.

Attorney Fee
The buyer typically selects the closing agent (attorney) but this is a negotiable point. The closing agent performs title search, examines chain of title, arranges title insurance, prepares the settlement/closing statement and records the required documents with the county Register of Deeds.

*Preparing the deed is the Seller's responsibility, though often is performed by the closing agent. **The Seller MUST confirm the closing agent is preparing the deed to be provided "no later than settlement"**.

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Failure to comply with this obligation is a material breach of the contract, which entitles the buyer to the remedies described in paragraph 23(b) of the Offer To Purchase and Contract (OTP), Form 2-T, which includes **cancellation of the contract**. Further, the seller may not be entitled to a delay in order to get it, since page 12 states delay is for a party for which it is "not possible" to be prepared for closing- and the seller had the opportunity to be prepared in this case, they're just not. So be certain to have a deed prepared independently or get confirmation buyer's attorney/closing agent is preparing it. $800-$1200 and can vary or increase if contract changes, addenda, correspondence, negotiation, etc. is required.

Additional fees closing agent may separately charge for:

Document prep
Closing agent may charge a separate fee in addition to typical attorney fee. $50

Flood certification
Evaluates flood risk at the property to determine whether flood insurance is required. May be included in closing agent fee. $20

Notary fee
If a notary travels to a convenient location, like your home, to certify signatures on the final paperwork and closing documents. This is not typical since electronic forms are easy to manage, notaries are everywhere, and we may soon see digital notarization. $100

Appraisal
Typically paid upfront, outside of closing (POC), the appraisal is a statement of property value; a requirement on financed purchases only, to assure the lender the loan does not exceed value, performed by a licensed, independent appraiser. $400-$500 (rush orders are added fee)

Inspections
Typically paid outside of closing (POC). This is for licensed home inspection(s), which often includes residence $350-600, pest/termite $50-100, radon $100-150 as well as many specialty inspections for things like fireplace, septic, well, hvac, plumbing and hot water, roof, etc. Fees vary if combined, as well for the size of the property. Septic, $250-400; Water/Well add-on, $55-150. Structural engineer is separate, $350+

If extensive repairs or replacement prior to closing are negotiated with the seller- instead of monetary "credits" on the settlement statement- you may want to have a *re-inspection* to confirm work was performed properly. $150-250

Survey
Survey confirms the lot boundary lines and location/legal description, exact location of structures, other improvements and adjacent properties, easements and rights-of-way, buffers and setbacks. It is not required (and unnecessary for condominiums), but always suggested. A survey may be worthwhile since not having one may limit title insurance protection. $350-$550+ since price is scaled, based on size over one acre.

Title Insurance
Protects buyers against loss due to claims or defects in the title that are not found in public record during title examination. Lenders title insurance (required) and owner's title insurance (optional) protect your lender and you against losses should such a claim arise. One-time fee paid at closing, based on purchase

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price, varies, around $2 per $1,000 of coverage + $90

Protection can include:

-property survey errors
-prior building code violations
-conflicting wills
-boundary disputes
-errors on the property deed
-claims by an ex-spouse who didn't sign off on the sale
-forged documents
-liens from contractors, taxing entities, or others

Mortgage Insurance (PMI) – not to be confused with FHA Mortgage Insurance Premium (MIP)
Generally required on mortgages where the borrower's down payment is less than 20% of the purchase price. It protects lender from loss if buyer defaults. Premium cost varies; likely worth shopping around if there is time in the closing calendar; lender often has a "recommended" company they like to use.

FHA Mortgage Insurance Premium (MIP)
Additional fee you pay to protect the lender's financial interests in case you default. FHA borrowers are required to pay two mortgage insurance premiums: one upfront at closing, and another annually for as long as you repay the loan, in most cases.

You can request cancellation. MIP could end after 11 years with a 10% downpayment or 5 years if you have 78% LTV (loan-to-value).

VA Funding Fee – only on VA loans; one-time fee, varies from 1.4%-3.6% depending on downpayment % and whether veteran is using VA loan benefits for first time.

Homeowners (hazard, fire) Insurance
Lenders require insurance for at least the amount of the mortgage (not so concerned about *your* replacement). First year premium is paid at closing- this is an ongoing annual expense of ownership. Rates are regulated by North Carolina. Your lender may have suggestions for providers/insurers. Before you close, you should compare insurance companies to find the lowest-cost, best coverage, customer service for you. $800+ depending on construction, finishes, coverage levels and options. Some providers:

AIG	USAA	Universal Insurance
Chubb	Liberty Mutual	Citizens
Progressive	Allstate	The Hartford
State Farm	Nationwide	Assurant
Travelers	American Family	Country Financial
Geico	Erie	United Property

Tip: A carrier you're already working with is a great start, and many can combine different coverages, like auto, for discounts. This has become increasingly popular with carriers.

Flood insurance
Only if property is in a certified flood zone where insurance is required. Standard homeowners insurance policies do <u>not</u> cover flooding. This insurance is paid separately, annually… $300-$1,000+

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Property taxes (ad valorem)
Wake county property is taxed *in advance* for the "fiscal" year from July 1 to June 30 the following year (some counties tax in "arrears", for the *prior* tax year). <u>They are not based on a calendar year</u>. This means if a sale closes after July 1, the sellers will owe the *proration* of the days they owned from July 1' up to and including closing day. If before, the buyers need to reimburse them for the period from the day after closing up to and including June 30. Further, the "paid on time" deadline is not for many more months after billing (Jan 5) so the seller may or may not have paid by closing day.

There are two elements to be considered in the calculation of prorations and credits, since billed period, and payment period before deadline, overlap. One: when seller was billed for a time buyer/new owner will actually own. Two: if seller has actually already paid for any period of their ownership, or buyer/new owner's period of ownership.

Example: A bill issued in July 2023 would cover the period of July 1, 2023, through June 30, 2024. It is due by Jan 5, so if you close between Jan 5 and June 30, your seller will have prepaid part of *your* taxes for the billed year, and will receive a credit back on the closing statement.
Example: Closing on October 18, so the seller owns the property for the tax bill period from July 1 to October 1. They have not yet paid the bill, so it is a lien on the property (and a "cloud" on title until paid). At closing October 18, the seller will credit the buyer for the prorated period July 1 to October 18, and the buyer will then pay for that period, as well as the for the rest of that fiscal year (to June 30)- in which the buyer was then owner.

The good thing is, the closing agent has to figure it out, not you (and they're used to doing it).

NC Transfer tax
<u>Typically paid by seller</u>, but is a negotiable item, so a buyer could be responsible. $1 for every $500 of the sale price.

Escrow Deposits
Funds held by the lender(servicer) to assure future payment of recurring items, such as, property (ad valorem) taxes, hazard insurance, and mortgage insurance.
Note: This increases your closing costs significantly because property taxes can be hundreds of dollars per month. Typically two months' homeowners insurance, two months' mortgage insurance (if required), five months' property tax.

Interim Interest
Specific partial month's interest collected on the loan from closing date to the first scheduled payment of the mortgage loan – the gap period (unless closing is the 1st of the month).

Recording Fees
Recording deed, deed of trust (for mortgage note) $50-115

HOA Reserve Funding or Contribution
This frequently occurs with a new construction purchase governed by a Homeowners Association (HOA). The builder will charge a flat amount, or a few months fees, to build an initial reserve for expenses relating to operations and upkeep of the HOA. These fees vary considerably based on the development and builder marketing approach.

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Existing HOA reserve funding
Some associations charge every new owner one or two months to add to reserves…but current owner does not get theirs back. It's a tactic to hit up a new member of the association when they've been writing a bunch of checks for various purchase costs and fees. Vee Real Estate Brokers doesn't fault the HOAs, but it stings a bit. Reserve funding is much more common with new construction, since there are no reserves initially (builder/developer/investor is responsible for workmanship, maintenance and repair for initial period, often one year or so but when they exit and HOA takes over, management can vary).

HOA Administrative fees
Some HOAs may have fees for a copy of the Covenants, Conditions and Restrictions (CC&Rs), for the property manager to complete a condo survey for the lender or other allowed fees. $50-200

Wire Transfer Fee
Some banks have a service charge, particularly on larger amounts. $20-75

Home Warranty
This is an option which can cover appliances, mechanicals and can be a worthwhile expense depending on age of existing components. Insurer has the option to repair or replace calculated by age, condition, replacement cost, etc. It may be smart to purchase a warranty initially, until you have a better knowledge of property condition after ownership for a time. There will likely be things you run into not discovered during inspections. $400-700

Movers
This can vary greatly, from hourly movers (typically with a two-hour minimum) and a rental truck, to full-service wrap and pack, as well as mileage or storage charges. A resource to research companies is the Moving & Storage Conference (MSC).

Shawn is one of few agents who can guide you through an uncertain market
Call Vee Real Estate Brokers today to maximize your opportunity!