



Real Estate Closing Costs

Who Pays What

There is some confusion and misunderstanding about what exactly closing costs are, and who should pay what. Closing costs are simply all the costs incurred in "closing" a real estate transaction. There are no rules as to who should pay what, everything is negotiable. However, here in Arizona there are several customary expectations.

1. Down Payment

The down payment is the difference between the purchase cost of the property and your new loan amount. For example, if the purchase price of your new home is \$1,00,000.00, your lending institution might require you to put down 10% or \$10,000 in order to lend you 90% or \$90,000.00 for a combined total of \$100,000.00. The down payment is always paid by the buyer and is not negotiable.

2. Broker Commissions

Sales Commissions are paid for by the seller in a traditional set up where the seller hires a listing agent to list his/her property for sale. The listing agent then pays the buyer's agent part of that commission. There are situations where the buyer will pay his or her agent, for example on a property that is for sale by owner (FSBO) where there is no listing agreement in place.

3. Existing Loan Payoff (including existing prepayment penalties) & Re-conveyance Fee

If the seller has an existing mortgage on the property, this loan needs to be paid off before title can be transferred to the buyer. Generally, the seller will use the buyer's funds to pay off this loan and keep the difference, if any. When the loan is paid off, the lender will issue the seller with a Deed of Re-conveyance, thereby releasing the seller's debt obligation. The existing loan is naturally paid off by the seller.

4. Property Repairs

Property repairs in the sales process are generally requested by the buyer and paid for by the seller.

5. Property Taxes

Property taxes are levied once per year by your county assessor and paid twice per year. In the closing transaction they are prorated. This means the seller pays the taxes until the day of closing and the buyer pays them from thereon forward.

6. Home Owners' Association Fees

Any HOA Transfer Fees are customarily split between both parties, and HOA Disclosure Fees are generally paid by the seller.

7. Property Inspection & Termite Inspection

Property Inspections as well as Termite Inspections are conducted at the buyer's discretion and therefore paid for by the buyer. They are mostly paid directly to the vendor and not through escrow.

8. Document Preparation Fee

This fee is charged by the buyer's lender for drawing up the loan documents and is paid for by the buyer.

9. Loan Origination Fees & Discount Points

You can think of the loan origination fee as the commission your lender charges to prepare the documents and process the loan. Discount points are money that you put up to pay down the interest rate, it is a form of pre-paid interest, one point equals one percent. Both fees are paid by the buyer.

10. Appraisal Fee

Since it is the buyer's lender that requires an appraisal, this is paid for by the buyer.

11 Credit Report Fee

This is a fee charged by the buyer's lender to pull the buyer's credit report and is also paid for by the buyer.

12. Impound Account (property taxes and insurance)

If you agreed to a PITI payment (principal, interest, taxes and insurance) the lender will collect the taxes and insurance from you on a monthly basis and park that money in your impound account. The lender will then pay your taxes and insurance bill when due.

13. Prepaid Interest

Interest is paid in arrears, meaning it accrues from the first of the month till the end of the month. Then, on the first of the next month, you pay the bill. Prepaid interest is the portion of interest, collected at loan closing, which covers the time period between funding and the beginning of the first 30-day period covered by the first payment. For example; if the loan closes on the 20th of January, your first payment will not be due until the first of March, at which time you will pay the interest for February. At the time of closing you will have to "prepay" the interest from the 20th till the end of January.

14. Fire/Hazard Insurance & Flood Insurance

Fire/Hazard Insurance and Flood Insurance (if any) are paid for by the buyer.

15. Escrow, Recording, and Courier Fees

These fees are generally split between buyer and seller, with the one exception that with a VA loan, the VA requires the seller to pay for them.

16. Title Insurance

The Homeowners' policy is issued and paid for by the seller, protecting the buyer against title defects. The lender's policy is generally required by the buyer's lender and paid for by the buyer.

Note

Depending on the type of transaction some of these fees will not apply, and others I have not mentioned might show up on your settlement statement. Talk to your real estate agent and/or escrow officer/attorney to get the specifics on your transaction.

Good luck!

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As an investor himself, as well as a licensed Realtor®, Dimitri has over a decade of real estate experience. Dimitri's specialties include primary residences, second homes, investment properties, commercial properties and land. He has been recognized for being a Multi-million Dollar Producer, and is an accomplished Realtor® committed to superior results for his clients.

"Strive not to be a success but rather to be of value" Albert Einstein