An Education on Closing Costs

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What You and Your Employees Should Know About Closing Costs?

Employees benefit from having a clear understanding regarding closing costs: what they are and what to expect regarding each. Company relocation professionals can assist employees by understanding these costs themselves, covering some of these costs, and working with an experienced mortgage provider with a team that can provide end-to-end expertise as part of the overall mobility process. There is a great deal to know about financing a home, but by partnering with an experienced mortgage provider, employees are able to complete their home purchase with far less stress and far more confidence that they've received the best mortgage to fit their needs at the highest savings. Companies benefit from knowing their employees will be free to focus on their new roles more fully – and that these employees will be happier, having had a more positive experience during their moves.

Closing costs can often be a source of confusion for employees; below are a few terms and key concepts to help employers support their assignees and transferees when moving to or within the United States.

Closing Costs: What are they?

Closing costs consist of all fees associated with a home's purchase or refinance, beyond the cost of the necessary down payment, paid to cover the costs of the transaction. Typically totaling 2-5 percent of the home's purchase price, these costs can vary from state to state, but are always paid at closing.

The Consumer Financial Protection Bureau requires that all lenders provide buyers with a Loan Estimate (LE), containing a summary of these costs, within three days of their application. In addition to providing this valuable information, the LE also allows buyers to compare lender offers when shopping for a mortgage. Let's take a look at some of these standard U.S. closing costs, below.

Loan Costs

The most variable of all costs related to a closing, loan costs represent all of the lender's charges for processing and closing a loan. When comparing overall costs among potential lenders, it's very important to consider all loan costs included in each estimate to make an accurate comparison.

Origination Charges

The Origination Charges section of a Loan Estimate (LE) lists costs charged by the lender that are associated with securing a loan. Origination Charges include fees for:

- **An application**: Fee to the lender for processing an application
- **Underwriting**: Fee charged to underwrite the loan and determine whether the loan can be approved
- **Points**: A percentage of the loan amount paid directly to the lender in exchange for a reduced interest rate (Points are optional)
- **Loan processing**: Fee to cover the cost of processing the documentation related to a mortgage application
- **Origination fee**: A percentage of the loan amount paid directly to the lender (This is strictly income to the lender and cannot be used for the purposes of reducing the interest rate. This fee may encapsulate other fees, such as application and underwriting, so it is important for buyers to ask what's included to avoid being double charged.)

Services You Cannot Shop For

Charged by third parties and passed on to you through the lender, there are some charges listed on a Loan Estimate (LE) that will most likely be similar between lenders. It's not possible to shop around for the following services:

- Flood certificate: Fee to determine if the property is located in a flood zone
- An appraisal: Fee to a certified appraiser to determine the value of a home and provide an appraisal report
- Tax service fee: Fee to ensure that mortgagors pay their property taxes on time
- A credit report: Fee charged by a third party to supply the lender with a credit report

Services You Can Shop For

While there are many services a home buyer can't shop for, there are some that they can. For example, an employee or employer may not have the opportunity to shop around for an appraisal provider, but s/he *can* do research to find the best cost for title services. If the buyer is purchasing in a state where the seller has the right to choose the title company, escrow company, or attorney, the buyer will be obligated to utilize that company and ask to be provided with a listing of its fees.

Title Company Fees

For disclosure purposes, title company fees that are listed on the Loan Estimate (LE) are typically from the lender's preferred title company, but a buyer isn't obligated to use the preferred company. If using the lender's preferred title company, title company fees cannot change more than 10% by the closing. For this reason, title company costs typically should not be used for comparison shopping among lenders.

Title company fees may include:

- **A closing/settlement fee:** Fee paid to title company, escrow company, or an attorney for handling the closing
- **An attorney fee:** Fee for an attorney to represent the buyer and/or lender in states where this is required by local law or customs
- **Title search fee:** Fee paid to a title company to search the public records of the subject property (To ensure there are no potential ownership disputes; unreleased liens/claims on the property; or missing, incomplete, or defective records)
- **Title insurance fee:** Policies to protect the lender (required) and owner (optional) against any loss due to defects in title
- **Document preparation fee:** Fee paid to title company, escrow company, or attorney for preparation of legal documents
- **Notary Fee:** Fee paid to a Notary Public to notarize pertinent legal documents
- **Miscellaneous Fees**

Other Costs

In addition to loan costs, there are other costs associated with a home purchase, including recording fees and prepaid expenses such as property taxes and homeowner's insurance.

Taxes and Other Government Fees:
There are a variety of government fees associated with buying a home. Local counties, for example, charge a fee for recording documents as public record. Recording fees and transfer taxes vary by location, with amounts determined by and paid to the local city/county/state.

Prepaid items:
These are items required by the lender to be paid in advance. They include homeowner's insurance, mortgage interest, property taxes, mortgage insurance, as well as funds required to establish an escrow account (if applicable).

Homeowner's Insurance Premium:
Before a buyer can close a loan, s/he will be required to obtain a homeowner's insurance policy. The lender will need to estimate how much this insurance will cost at the time of application, since the borrower will select the homeowner's insurance which will determine the premium that the borrower will incur. The buyer must either obtain an insurance binder with an invoice and have the insurance paid at closing, or s/he can obtain a certificate of insurance with a paid receipt if the fee will be paid outside of closing. A full year of insurance is typically required.

Mortgage Insurance Premium:
In some cases, a loan may require that a mortgage insurance payment be made up front. There are specific loan scenarios that will require this payment and should be discussed with your mortgage provider.

Prepaid Interest:
Lenders always charge interest from the day a buyer closes his/her loan until the end of that month. For example, if a buyer will be closing his/her loan on November 15th and the first mortgage payment will be due on January 1st, the lender will collect 16 days of interest so that the buyer's interest will be paid through December 1st. December's interest would be collected (in arrears) with the buyer's January payment.

Property Taxes:
If a bill for taxes is due at the time of closing, the title company will require that it is paid before finalizing the sale. Property taxes will be prorated between the buyer and seller according to the home's closing date.

Initial Escrow Payment at Closing:
If taxes and insurance will be included in the mortgage payment, the lender will be required to collect enough monthly reserves to ensure that the buyer's escrow account will have enough funds to pay for real estate taxes and insurance when payments are due. Lenders may vary on how they show these reserves. Reserves shouldn't differ significantly among lenders. However, if a significant difference *is* noted among potential lenders, employees and employers should ask for an explanation as to how these figures have been calculated.

Other Costs:
The "Other" section listed on a buyer's Loan Estimate (LE) may list optional costs such as owner's title insurance, inspections, or attorney fees. It may also include items such as Homeowner's Association (HOA) fees, or a home warranty.
Ultimately, closing costs vary based on the type of loan being applied for, the type of property being purchased and its occupancy, an individual's credit rating, and local norms. Responsibility for these costs also vary, with buyers paying some fees and sellers paying others. Clients who include purchase benefits in their policy will typically cover normal and customary, non-recurring closing costs when their transferee is purchasing a residence in the destination location. It's important to note that these reimbursed items are considered income to the employee and subject to tax. Prepaid items, such as taxes and insurance, are not covered. Consulting a knowledgeable mortgage provider for insight and guidance is recommended for minimizing confusion and maximizing the buyer's experience regarding obtaining a mortgage and closing on a new home.

Disclosures

In addition to a lender being required to provide a Loan Estimate (LE) within three days of a buyer's application, the lender must also provide a Closing Disclosure (CD), which discloses the actual, final closing costs, at least three days prior to closing. This allows the buyer to compare the two estimates, note any changes and prepare for finalizing the transaction. There are limitations on the amount fees can increase to on any CD as compared to the LE; some fees can increase up to 10 percent, while others can't increase at all.

Helping Relocating Employees Through the Closing Process

Relocating can be an overwhelming process for employees. When that process includes purchasing a new home in a new location, employers should be aware of the above items to potentially assist its employees and guide them through their relocations. Ensuring that employees have a positive relocation experience and remain as financially whole as possible after a closing has a variety of benefits for both the employee and company. More than just ensuring that the experience gets the employee off to a good start in his/her new role – providing a positive relocation experience also supports employee retention, allows the employee to focus more fully on the position s/he will be undertaking, and reinforces a strong employee mobility brand.

SIRVA Mortgage has over 25 years of focus and expertise in relocation mortgage lending. We understand the important role home financing plays in the relocation process. Please visit our Mortgage website to learn more, or contact us, at concierge@sirva.com.

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