

Closing Costs and Prepays

Buyer fees are paid to various service providers in the transaction. Some are collected at the time of mortgage application, such as the application fee or the credit report. Most are collected at closing. Buyer funds are allocated to the down payment, closing costs, and prepaid items. Sometimes your closing costs and prepaids are paid by the seller when negotiated in the contract.

Closing costs are fees for services necessary to the transaction. Fees which cover the appraisal, survey, tax certificates, escrow fees, loan application, underwriter, courier, title insurance, and attorney are examples of closing costs.

Prepays are fees paid by either you or on your behalf are collected for payment of a bill due in the future. Many prepaid items are put into an escrow account where they accumulate until the actual bill is due. Examples of prepaid items are taxes, insurance, private mortgage insurance, prepaid interest, etc.

Lenders are required to disclose charges involved in the financing of the home. The Truth in Lending Act requires the lender to disclose credit terms clearly, conspicuously, meaningfully, and in writing. The lender discloses terms by providing a Good Faith Estimate.

The Good Faith Estimate is only an estimate. The actual charges will be affected by information not known by the lender at the time of the mortgage application. These charges will be affected by the date of closing, the specific vendors providing services, the municipality where the property resides, and the underwriter providing funds to you.

At closing, you will sign a HUD-1 Settlement Statement which lists the disbursement of all funds associated with the purchase. To learn more about closing costs, prepaids, and the HUD-1, go to <http://www.hud.gov/offices/hsg/sfh/res/sfhrestc.cfm>.