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# CLOSING COSTS: WHO PAYS WHAT?

## By Rod Herman – All Rights Reserved

In any real estate transaction, buyers and sellers pay a variety of closing costs. Most are fully negotiable, though who pays for what is usually based on local customs, which can vary by county and state.

Knowing what to expect before you go into the title company to sign your closing papers is important. Not only will it prevent any unexpected surprises, but it was also save you a lot of potential grief and anxiety.

Not sure what to expect in the way of closing costs? Well let's take a look at some of the most common ones, based on what's customary in Solano County. We'll start with those that are commonly charged to the buyer first.

**BUYERS' COSTS**

**Lender Fees.** If you're taking out a loan, your lender is going to charge you an assortment of fees and charges. Such things as appraisal fees, flood certification fees, document processing and preparation fees, loan origination fees, and wire fees are all common.

You'll also pay pre-paid interest from the day the loan funds through the end of that month. In addition, you may also pay loan discount points, which essentially are pre-paid interest. Each "point" is one percent of the loan amount; so on a $250,000 loan, one point would be $2,500. The higher the interest rate, the lower the points and visa-versa.

**Title/Escrow Fees.** The company that handles your escrow will charge an escrow fee and title insurance fees. If you're taking out a loan, you'll actually be required to pay for two separate title policies: one to cover yourself and another to cover your lender's interest in the property. All title companies collect fees for any documents that need notarizing. Some also collect a document preparation fee.

**Property Taxes.** Property taxes are pro-rated as of the date escrow closes. Unless escrow closes on June 30 or Dec. 31, one party will pay for pro-rated taxes. Whether that charge falls on the shoulders of the buyer or the seller depends on the time of year that escrow closes.

If you have an impound account, your lender may also collect a specified number of months worth of taxes. Some lenders require taxes to be pre-paid at close of escrow through a certain date.

**Insurance.** If you're taking out a loan, the lender will require that you have your first year's insurance policy in place before escrow closes. If you have an impound account, they'll also require two-months' reserves.

**Inspections.** Most buyers have various property inspections performed while the house is in escrow. The most common are pest inspections, general home inspections, roof inspections, pool/spa inspections, and chimney inspections. Often, you have the option of paying at the time of the inspection or having it billed to escrow. If it's billed to escrow, it'll be collected as part of your closing costs.

**Other Costs/Credits**. In addition to those I already mentioned, any other costs or charges that you incur or have billed to escrow will be collected as part of your closing costs. If you're buying a condominium, you'll probably have some costs or monthly dues prorations on your closing statement.

Those are the most common buyers' closing costs. Now let's look at what the seller likely will incur.

**SELLERS' COSTS.**

**Lender's Fees.** If you have any existing mortgages on your home right now, you'll have to pay them off at closing. The title company will get a payoff statement from your lender and debit that amount from your proceeds.

Since mortgages are paid in arrears, you'll also have to pay any interest due but not yet collected through the close of escrow. If you close Sept. 10, for example, assuming you didn't already make your Sept. 1 payment, you'd have interest from Aug.1 through the date escrow closes.

Any pre-payment penalties, statement fees, reconveyance fees or late charges owed to the lender will also appear on their payoff demand to the title company and will be debited as closing costs.

**Inspections & Repair Costs.** Although the buyer usually pays for most of the inspections, in some cases, the seller may end up paying for certain inspections. Any which are billed to escrow are paid out of the seller's proceeds.

No matter how new or how well-cared-for the home may be, there are usually repairs which must be completed before escrow closes. Often, the seller hires a contractor or a handyman to perform these repairs and then has the invoice sent to the escrow company to be paid as closing costs.

**Home Protection Plan.** Almost always, the seller is asked to pay for a one-year home warranty on the home. They normally run about $250-$400, depending on how the home is equipped.

**Property Taxes.** As you saw on the buyer's side of the balance sheet, property taxes are pro-rated as of the date escrow closes. Any such prorations that the seller is obligated to cover are debited at close of escrow.

**Homeowner's Associations.** If you're buying in a development that has a homeowner's association, the seller often is required to pay document fees and transfer fees. The same can be true for sellers in a mobile home community.

**Transfer Tax.** Every county in California imposes a transfer tax of $1.10 per $1,000, based on the sales price. In Solano County, that's always a seller's cost. If you're selling in Vallejo, you'll also pay a city transfer tax of $3.30 per $1,000 (for a total of $4.40/$1,000). On a $300,000 home, that means a transfer tax cost of $1,320 in Vallejo and $330 everywhere else in the county.

**Mandatory FHA/VA Fees.** If you're selling a home to a buyer with an FHA or VA loan, then you'll also be charged a variety of lender and escrow fees that are normally the buyer's responsibility. You don't have a choice; the buyer isn't allowed to pay them. You either pay them or the buyer doesn't get the loan. On an FHA loan, they usually run about $900. On a VA loan, they're normally around $1,500.

**Brokerage Fee.** The real estate brokerage fee is paid to the agents representing the buyer and seller. Typically it is split 50-50 between the two agents. The seller pays the entire brokerage fee, which is usually a percentage of the sales price.

**NHD Certification.** A relatively new state law requires the seller to disclose whether the property lies within any of six natural hazard zones. Most sellers hire an independent firm to do the research and provide the certification. The cost is usually around $50.

**Escrow Fees.** Along with the fees I've already mentioned, the title company will also collect for a variety of fees for services or costs they incur as part of the escrow process. These can include such things as notary fees, document preparation fees, recording fees, wire fees, reconveyance tracking fees, and courier/overnight delivery fees.

**Credits and Other Fees.** If seller is giving the buyer a credit towards closing costs or towards some type of repair that's needed, that amount will be debited from the seller's proceeds.

In some cases, the seller needs to stay at the property for a short period of time after escrow closes. If so, they usually pay rent based on the buyer's new payment. Any such rents are usually deducted from the seller's proceeds and then disbursed to the buyer after the seller vacates.

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