What are closing costs?

Closing costs include the myriad fees for the services and expenses required to finalize a mortgage. You'll have to pay closing costs whether you buy a home or refinance.

Most of the closing costs fall on the buyer, but the seller typically has to pay a few, too, such as the real estate agent's commission. (Buying a home for the first time? See our tips for first-time home buyers.)

How much are closing costs?

Average closing costs for the buyer run between about 2% and 5% of the loan amount. That means, on a $300,000 home purchase, you would pay from $6,000 to $15,000 in closing costs.

The most cost-effective way to cover your closing costs is to pay them out-of-pocket as a one-time expense. You may be able to finance them by folding them into the loan, if the lender allows, but then you'll pay interest on those costs through the life of the mortgage.

When buying a home, you can comparison shop and negotiate some of the fees to lower your closing costs. And some states, counties and cities offer low-interest loan programs or grants to help first-time home buyers with closing costs. Check with your local government to see what's available.

Your lender is required to outline your closing costs in the Loan Estimate you receive when you first apply for the loan and in the Closing Disclosure document you receive in the days before the settlement. Review them closely and ask questions about anything you don't understand.

Here are the fees that the buyer's closing costs can include:

Property-related fees

Appraisal fee: It's important to a lender to know if the property is worth as much as the amount you want to borrow. This is for two reasons: The lender needs to verify the amount you need for a loan is justified and make sure it can recoup the value of the home if you default on your loan. The average cost of a home appraisal by a certified professional appraiser ranges between $300 and $700.

Home inspection: Most lenders require a home inspection, especially if you're getting a government-backed mortgage, such as an FHA loan insured by the Federal Housing Administration. Before lending you hundreds of thousands of dollars, a bank needs to make sure the home is structurally sound and in good enough shape to live in. If the inspection turns up troubling results, you may be able to negotiate a lower sale price. But depending on how severe the problems are, you have the option to back out of your contract if you and the seller can't come to an agreement on how to fix the issues. Home inspection fees, on average, range from $300 to $500.

Loan-related fees

Application fee: This covers the cost of processing your request for a new loan and includes costs such as credit checks and administrative expenses. The application fee varies depending on the lender and the amount of work it takes to process your loan application.

Assumption fee: If the seller has an assumable mortgage and you take over the remaining balance of the loan, you may be charged a variable fee based on the balance.

Attorney's fees: Some states require an attorney to be present at the closing of a real estate purchase. Now that you are buying in Colorado, you won't be required to hire an attorney, however this is always an option. The fee will vary depending on the number of hours the attorney works for you.

Prepaid interest: Most lenders require buyers to pay the interest that accrues on the mortgage between the date of settlement and the first monthly payment due date, so be prepared to pay that amount at closing; it will depend on your loan size.

Loan origination fee: This is a big one. It's also known as an underwriting fee, administrative fee or processing fee. The loan origination fee is a charge by the lender for evaluating and preparing your mortgage loan. This can cover document preparation, notary fees and the lender's attorney fees. Expect to pay about 0.5% of the amount you're borrowing. A $300,000 loan, for example, would result in a loan origination fee of $1,500.

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Discount points: By paying discount points, you reduce the interest rate you pay over the life of your loan, which results in more competitive mortgage rates. The cost of one point equals 1% of the loan amount. So, for a loan of $250,000, a 1-point payment would be $2,500. Generally, paying points is worthwhile only if you plan to stay in the home for a long time. Otherwise, the upfront cost isn't worth it.

Mortgage broker fee: If you work with a mortgage broker to find a loan, the broker will usually charge a commission as a percentage of the loan amount. The commission averages from 0.5% to 2.75% of the home's purchase price.

Mortgage insurance fees

Mortgage insurance application fee: If you make a down payment of less than 20%, you may have to get private mortgage insurance. (PMI insures the lender in case you default; it doesn't insure the home.) The application fee varies by lender.

Upfront mortgage insurance: Some lenders require borrowers to pay the first year's mortgage insurance premium upfront, while others ask for a lump-sum payment that covers the life of the loan. Expect to pay from 0.55% to 2.25% of the purchase price for mortgage insurance, according to Genworth, Ginnie Mae and the Urban Institute.

FHA, VA and USDA fees: If your loan is insured by the Federal Housing Administration, you'll have to pay FHA mortgage insurance premiums; if it's guaranteed by the Department of Veterans Affairs or the U.S. Department of Agriculture, you'll pay guarantee fees. In addition to monthly premiums, the FHA requires an upfront premium payment of 1.75% of the loan amount. The USDA loan upfront guarantee fee is 1%. VA loan guarantee fees range from 1.25% to 3.3% of the loan amount, depending on the size of your down payment.

Property taxes, annual fees and insurance

Property taxes: Buyers typically pay two months' worth of city and county property taxes at closing.

Annual assessments: If your condo or homeowner's association requires an annual fee, you might have to pay it upfront in one lump sum.

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Homeowners insurance premium: Usually, your lender requires that you purchase homeowner's insurance before settlement, which covers the property in case of vandalism, damage and so on. Some condo associations include insurance in the monthly condo fee. The amount varies depending on where you live and your home's value.

Title fees

Title search fee: A title search is conducted to ensure that the person selling the house actually owns it and that there are no outstanding claims or liens against the property. This can be fairly labor-intensive, especially if the real estate records aren't computerized. Title search fees are about $200, but can vary among title companies by region. The search fee may be included in the cost of title insurance.

Lender's title insurance: Most lenders require what's called a loan policy; it protects them in case there's an error in the title search and someone makes a claim of ownership on the property after it's sold. Coverage lasts until the loan is paid off.

Owner's title insurance: You should also consider purchasing title insurance to protect yourself in case title problems or claims are made on your home after closing. The owner's coverage lasts as long as you or your heirs own the property.

The cost of the owner's policy is about 0.5% to 1% of the purchase price, according to the American Land Title Association.

Whether the buyer or seller pays for title insurance varies by region. A discount is sometimes offered when both the lender's and owner's policies are purchased at the same time.

Mortgage closing documents

With so many closing costs to consider, it's obvious you'll face a lot of paperwork just prior to and during the loan signing. **Two of the most important closing documents are the Loan Estimate and the Closing Disclosure**.

You'll receive the Loan Estimate three days after applying with a lender. It will officially detail all fees, the interest rate and the other costs to close your loan. It's legally binding, so you'll want to read it carefully.

Then, three days from loan settlement and prior to making the big commitment, you'll receive the Closing Disclosure from your lender. It confirms — or makes minor adjustments to — what you saw on the Loan Estimate. Again, it's worth a big cup of coffee and a thorough review.

Mortgage closing costs: summary

- Appraisal fee ($300-$700)
- Home inspection ($300-$500)
- Application fee (varies)
- Assumption fee (varies)
- Attorney’s fee (hourly)
- Prepaid interest (based on loan amount)
- Origination fee (about 0.5% of loan amount)
- Discount points (1 point costs 1% of the loan amount)
- Mortgage broker fee (0.50% to 2.75%)
- Mortgage insurance application fee (varies)
- Upfront mortgage insurance (0.55% to 2.25%)
- FHA, VA and USDA fees (1% to 3.3%)
- Property taxes (two months’ worth)
- Upfront HOA fee (varies)
- Homeowners insurance (depends on home value and location)
- Title search fee (about $200)
- Lender’s title insurance (varies)
- Owner’s title insurance (0.5% to 1% of purchase price)