Understanding Closing Costs

Buying a home is one of the most significant financial decisions you'll ever make — and closing day is the moment it all comes together. Knowing what to expect when it comes to closing costs helps you arrive prepared, confident, and ready to sign. Below are answers to the questions we hear most:

What services will I be paying for when I pay closing costs?

You will usually be paying for such things as appraisal fees, loan fees, escrow charges, advance payments such as property taxes and homeowner's insurance, title insurance premiums, real estate commissions, pest inspections, and the like.

How much should I expect to pay in closing costs?

The amount you pay for closing costs will vary; however, when buying your home and obtaining a new loan, an estimate of your closing costs will be provided to you pursuant to the Real Estate Settlement Procedures Act after you submit your loan application. This disclosure provides you with a good faith estimate of what your closing costs will be in the real estate process. An itemized list of charges will be prepared when you close your transaction and take title to your new property.

Can I pay for my closing costs in installments?

No, and it is easy to understand why. Many different parties will have fulfilled their responsibilities and be awaiting payment upon closing. The title or escrow company will disburse monies to those parties, pursuant to the escrow instructions, when funds are available.

Will I be allowed to write a personal check to cover my closing costs?

Your closing funds should be in the form of a cashier's check, issued by a California institution, made payable to the title company or escrow office in the amount requested. A personal check may delay the closing or may be unacceptable to the title or escrow company. An out-of-state check could also cause a delay in your closing due to possible delays in clearing the check.

Is it a law in California that I must purchase a title insurance when I buy or refinance a home?

No. However, virtually all lenders require title insurance for the face amount of their deed of trust, whether purchase or refinance. Prudent owners also value the protection afforded by the payment of the one-time title insurance premium.

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How much can I expect to pay in title insurance?

Title insurance premiums vary based on the purchase price and transaction details. Typically, title insurance represents only a portion of overall closing costs and is a one-time premium that provides coverage for as long as you own the property.

Who will pay for title insurance charges, the buyer or seller?

Surprisingly, "who pays" is not uniform from county to county in California. In some counties the buyer will pay, while in others the seller will pay. In other counties the seller will pay for the owner's title policy and the buyer will pay for the lender's policy. But in every case, the question of who pays closing costs is a matter of agreement between the buyer and seller.

Why are separate owner's and lender's title insurance policies issued?

Both you and your lender will want the security offered by title insurance. Your home is an important purchase, and you will want to be certain your home is yours, all yours. Title insurance companies insure your rights and interests in order to protect you against claims.

Your lender is looking to insure the enforceability of their lien on your property and marketability. We in California have long been importers of mortgage money. Local lenders will "originate" a loan here, and, often, sell it to an out-of-state investor. This investor, who may never see the property, needs to know that he has a valid and enforceable lien. Title insurance is the way of making certain. Without a current title policy, the loan is essentially unmarketable.

What does my title dollar pay for?

- Title insurers operate under the theory of "risk elimination," which can only be accomplished after an intensive period of risk identification.
- Title companies spend a high percentage of their operating revenue collecting, storing, maintaining, and analyzing official records for information that affects title to real property.
- Trained title experts identify the rights others may have in your property — such as recorded liens, legal actions, disputed interests, rights of way, or other encumbrances — so you can seek to "clear" them before closing.
- The goal is a thorough search so no claims will ever arise. When claims do arise, professional claims personnel ensure your property rights are protected pursuant to the terms of your policy.
- When you pay for your title insurance policy, you are paying for a team of professionals who have worked together to deliver protection for your ownership of real property.

Who can I look to for straight answers on title and closing costs?

Your title or escrow company representative is available to review and explain your closing statement and title policy. Should you still have further questions or need legal or tax advice, your title or escrow officer can help by referring you to the proper source for your answer. Remember, the title or escrow officer is not a legal counsel and cannot give you legal advice.