

How Much is too Much for Mortgage Closing Costs?

By: Jennifer Hershey

Something that is very important for you to take into consideration when purchasing or refinancing your home is the closing costs.

I would love to tell you that closing costs are not expensive, but believe me they are. Once you add up all the fees' involved, such as points, taxes, title insurance, county costs and various other fee's, it really begins to add up.

The first thing you need to understand is that nobody works for free, so be prepared to pay at closing.

The total amount of fees' depends on quite a few things. For instance, the percentage of loan origination fees' (points) the lender is going to be charging you. Another large fee is the title search and insurance. The title fee varies by state and is determined by the amount of the home.

Closing costs on average should not exceed 5% of the total amount of the purchase price, and this does not include the down payment.

The total amount of these fees' does not all go to the lender. Generally only the loan origination fee and the application fee go to the lender.

The rest of the fee's such as the appraisal, credit report, interest for the period in between closing and your first monthly payment, home owners insurance, title insurance, pro rated property tax, etc., go to their appropriate institutions.

Before you go to closing, the lender is required by law to send you a Good Faith Estimate (GFE). The GFE disclose an accurate estimate of the entire fee's you will be responsible for at closing.

Make sure you go over the GFE with a fine tooth comb, and if there are any fees' you do not understand, call your lender or broker and ask for an explanation.

As I stated earlier, you must be prepared to pay closing costs. Closing costs are not cheap, but you should not pay a penny more than what is required.

If your closing costs are somewhere between two and 5% of the amount of the mortgage, you should be in good shape.

If they are drastically higher, consider finding another lender.

Remember, do your homework. Put yourself in a position to understand all the jargon that fills up all the paperwork you will be signing.

Also, take your time and shop around, always look for the best rate at the lowest possible price

Author Bio

Jennifer Hershey has more than twenty years of experience in the Mortgage Industry as a loan officer. She is the owner of www.explainingmortgages.com, a mortgage resource site devoted to making mortgage terms and products easy to understand.

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