Closing Costs Explained

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Types of Closing Costs

Arbor Financial Group's mission is to provide our clients with completely transparent transactions. Making the right closing cost choice is a critical part of ensuring you have the best mortgage to reach your financial goals. Regardless of which choice you make we will review your Good Faith Estimate with you to make sure you understand each cost associated with your new mortgage.

1. Non Recurring Closing Costs

These costs do not continue on after you close your mortgage. These are one time fees that service providers charge to complete your transaction. These fees include: discount points, origination, credit report, appraisal, escrow, title insurance, processing, underwriting, document preparation, wire, recording, notary, and lender fees. This list contains most to the fees you can expect to find on your good faith estimate and HUD-1. These are the hard costs that a lender will pay for you in a no cost transaction. These fees typically range between $2500 to $3500 depending on your loan amount.

2. Pre-Paids

Pre-paid costs are those you will continue to incur after you close your loan. These costs are comprised of mortgage interest, hazard insurance, and property tax expense. These costs will not be covered by your lender in a no cost refinance.

What is a Point? "Points" are commonly referred to when shopping for mortgage loans. A point represents 1% of the loan amount. Banks and brokers charge points if borrowers elect a rate with no premium.

> **Fact:** There is no such thing as a "no cost loan." The higher the interest rate on your loan…the more valuable it is to the lender. Lenders pay a premium for higher rates. That premium is used to pay your closing costs. Bottom line…the less you pay upfront the higher your rate will be.

Closing Cost Options

1. Option 1: You pay 1 point and all of your closing costs.

This is the lowest rate option and is best for borrowers with a long term goal for the property they are financing. You will typically break even on your upfront investment in 7 years. Therefore, if you are confident you are getting a rate that is historically low and you are not planning on selling or refinancing your property in the next 7 years. This is a viable option.

2. Option 2: You pay no points and all of your closing costs.

Your rate will be roughly .125% to .25% higher than in Option 1 but you will not be paying any points out of pocket. This option and works best for borrowers whose next 5 to 7 years are uncertain.

3. Option 3: You pay no points and no closing costs.

Your rate will be roughly .375% to .5% higher than option 1 but your will not incur any out of pocket expenses. This option is great if you feel you can out earn the rate on your mortgage by investing your money elsewhere or you want to hang onto your cash. If rates continue to drop you can refinance your loan again and will not bear the brunt of the costs again. While you do not realize the benefit of the lowest rate you have no cash investment to make for the loan.

I hope you found this article useful. For additional questions please don't hesitate to call me anytime.

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