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Closing Costs: What Are They, And How Much Will You Pay?

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Your down payment isn't all you need to bring to the closing table w Closing costs are expenses beyond the down payment, such as app fees and escrow funds, that you pay on closing day.

First-time home buyers often underestimate just how much they'll need to pay in closing costs. And some buyers may not even know there are ways to reduce how much they'll pay.

Let's go over everything you need to know about closing costs before you finalize your mortgage loan. Then, we'll walk through a few tips on ways to limit the amount you'll pay at closing.

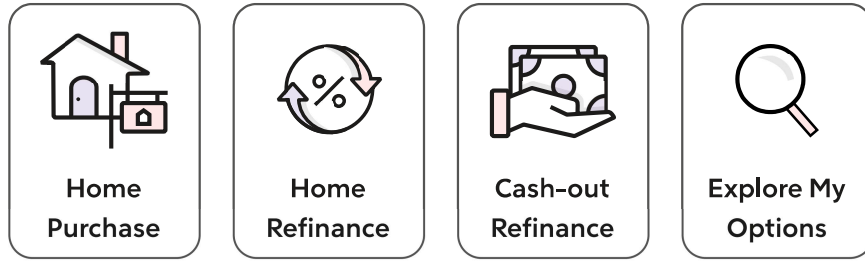
Closing Costs | The Red Desk



What Are Closing Costs On A House?

Closing costs are paid when you close on your mortgage. These costs come about through the process of creating your loan. Closing costs cover the fees for services like your home appraisal and searches on your home's title. The specific closing costs you'll need to pay depend on the [type of loan](#) you borrow and where you live.

See What You Qualify For



Closing costs are typically 3% – 6% of the loan amount. This means that if you take out a **mortgage** worth \$200,000, you can expect to add closing costs of about \$6,000 – \$12,000 to your total cost.

Closing costs don't include your **down payment**, but you may be able to negotiate them. Just be aware that your negotiating power can depend heavily on the type of market you find yourself in (like a buyer's or seller's market).

Average Closing Costs By State

Below is a state-by-state breakdown of average closing costs, with and without transfer taxes. These averages are based on the average home price for each state.



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Who Pays Closing Costs?

Both buyers and sellers pay closing costs. However, the buyer usually pays most of them. You can negotiate with a seller to help cover closing costs as part of their [seller concessions](#). Arranging for the seller to pay concessions can be extremely helpful in making your home purchase more affordable.

However, sellers have limits on the amount they can offer toward closing costs. The seller's contribution can only reach a certain percentage of your mortgage amount, which varies by loan type, occupancy and down payment amount. We've broken this down with an example and in the sections below.

Conventional Loans

The limits on seller concessions for [conventional loans](#) can depend on a few different factors, including whether the property is a primary residence or second home.

Below, we include the percentage of the total loan amount the seller can expect to pay in concessions for different down payment amounts. The down payment percentages are based on the purchase price or appraised value, whichever is lower.

For primary residences:

- Down payments of 25% or more: 9%
- Down payments of 10% – 24.99%: 6%
- Down payments less than 10%: 3%

For second homes:

- Down payments of 25% or more: 9%

- Down payments of 10% – 24.99%: 6%

For an investment property, the maximum amount of seller concessions for any down payment is 2%.

FHA Loans

Seller concessions on [FHA loans](#) are much more straightforward. The contribution limit on seller concessions is 6% based on either the appraised value or the purchase price of the house, whichever is lower.

VA Loans

[VA loan](#) seller concessions follow a couple of different rules depending on what they're being applied to. The full amount of seller concessions can be applied to discount points, origination costs, surveys, appraisals and credit report fees, up to 4% of the total loan amount.

The remaining concessions can be applied to prepaid escrows, like property taxes and homeowners insurance, or the VA funding fee.

Jumbo Loans

Seller concessions for [jumbo loans](#) can vary widely by lender.

An Example Of Seller Concessions In Practice

Let's say that you take out a loan worth \$200,000. It's a conventional loan, so the seller can only contribute a maximum of 3% (\$6,000) toward your closing costs if you make a down payment of less than 10%.

If your closing costs come to less than 3% of your loan value, the seller can contribute up to 100% of the closing cost value. This means that if your closing costs on the same loan equaled \$2,500, the seller could only offer up to \$2,500. These limitations are designed to help prevent fraud.

How To Calculate Closing Costs

Are you interested in seeing what you can expect to pay in closing costs in your area? Below, you can plug in the home's purchase price and ZIP code, along with the down payment amount and credit score, to estimate your potential closing costs.

If you're trying to calculate your closing costs by hand before having all of the real numbers to work with, remember: As a general rule of thumb, you can expect to pay about 3% – 6% of the loan amount in closing costs.

Purchase Price

\$ 250,000

Down Payment


\$

%

\$ 50,000

ZIP Code

How would you rate your credit?

Excellent (760+) 

Calculate

What's Included In The Closing Costs For A Buyer?

Not every buyer will pay the same amount in closing costs. Some costs are lender requirements, some are government requirements and others may depend on the situation. How much you'll need to pay for will depend on where you live, your specific lender and the type of loan you take out.

At least 3 business days before you attend your closing meeting, your lender will give you a document called your [Closing Disclosure](#). This will list out every clc to cover and how much you owe. Let's look at some of the most cor you might see on your disclosure.

Application Fee

Some lenders charge an application fee to process your loan request. This fee varies by lender but can cost up to \$500. The application fee may be a separate fee or used as a deposit that will be applied to other closing costs.

Appraisal

Your lender will order a [home appraisal](#) to determine how much your property is worth. The appraisal is typically ordered through a third-party appraisal management company. The company will then send a professional appraiser to take a look at your home. They'll do some basic safety checking to make sure the property is move-in ready.

Appraisals are important because they establish your [home's value](#), which affects the amount you can borrow for a mortgage. The home appraisal also ensures you aren't overpaying for a property. Appraisal fees are usually in the \$300 – \$600 range, but they can be higher or lower depending on your unique situation.

Attorney Fees

In some states, you can't close on a home loan without an attorney. Attorney fees cover the cost of having a [real estate attorney](#) coordinate your closing and draw up paperwork for your title transfer. Real estate attorney charges often depend on state and local rates.

Closing Fee

Your closing fee goes to the escrow company or attorney who conducts your closing meeting. In some states, an attorney must sign off on every mortgage closing. These costs vary depending on your state and whether an attorney must be present on closing day.

Courier Fee

Courier fees cover the cost of transporting mortgage documents. Expect to pay around \$30 in courier fees if your lender charges them.

Credit Reporting Fee

Credit reporting fees cover the cost of pulling your credit report and score. Most credit reporting fees range between \$10 – \$100.

Discount Points

Lenders allow you to pay money upfront on your loan to reduce your interest rate by buying [mortgage discount points](#) (essentially, buying down your rate to save money in interest over time). One discount point equals 1% of your loan amount.

For example, if you get a mortgage for \$100,000, one point will cost you \$1,000. For a \$200,000 loan, a point costs \$2,000. Unlike other fees, discount points aren't mandatory.

Your fees for any discount points will appear on your [Loan Estimate](#) under the origination charges.

Escrow Funds

Sometimes referred to as reserve fees or prepaids, [escrow](#) funds hold reserved money for property taxes, homeowners insurance premiums and mortgage insurance. Your lender keeps your escrow funds in a special account and uses them to make payments on your behalf as part of your regular mortgage payment.

At closing, your lender might require you to put a few months' worth of expenses into an escrow account. Although the number of months depends on your lender, many buyers put down 2 months' worth of expenses at closing.

FHA Mortgage Insurance

With an FHA loan, you'll need to pay an [FHA mortgage insurance premium \(MIP\)](#) upfront at closing, plus a monthly MIP fee for the life of the loan unless you make a down payment of 10% or more. In that case, MIP is removed after 11 years. The current FHA MIP rate is 1.75% of your base loan amount.

For example, if you borrow \$100,000 to buy your home, your MIP due at closing is \$1,750. This upfront payment is separate from your monthly MIP, which ranges from 0.15% to 0.75% of your loan value.

Flood Certification

You will likely need to pay \$15 – \$25 for a flood certification. This money goes to the Federal Emergency Management Agency (FEMA), which uses the data to issue flood emergencies and target high-risk zones. This closing cost only applies to a house in a [flood zone](#).

Homeowners Association (HOA) Transfer Fee

If your property is located in an [HOA](#), your homeowners association transfer fee covers the cost of moving HOA fees from the seller to the buyer. It ensures that the seller is up to date on their HOA dues and provides you a copy of the association's payment and dues schedule, as well as HOA financials.

Most of the time, the seller covers this cost. However, you might need to pay your transfer fee if you're buying in a very competitive market.

The amount you'll pay for your transfer depends on the HOA's policies. If you live in an area without an HOA, you won't pay this fee at all.

Homeowners Insurance

[Homeowners insurance](#) is a type of protection that compensates you if your home gets damaged. Most mortgage lenders require you to have a homeowners insurance policy as a condition of your loan. Homeowners insurance typically protects against natural disasters, house fires, theft and vandalism. You may also have the option to include liability coverage and personal property coverage in your policy.

Many lenders require you to pay a year's worth of homeowners insurance at closing. As a general rule, expect to pay about \$50 a month for every \$100,000 in home value.

For example, if you buy a home worth \$200,000, you'll likely pay about \$100 per month for homeowners insurance. This means that your lender might require you to put \$1,200 into an escrow fund at closing.

Lead-Based Paint Inspection

If you're buying a home built before 1979, it might have lead paint. Lead-based paint poses a significant health risk to both adults and children living in a home.

This fee covers a test for lead in the home. Expect to pay around \$300 or more for a lead-based paint inspection.

Lender's Title Insurance

Lender's title insurance protects the lender from loss if you lose your home. Unlike with other types of insurance, you only need to pay for lender's title insurance at closing.

Lender's title insurance, which typically costs between 0.5% – 1% of the mortgage, is separate from owner's title insurance.

Loan Origination Fee

Your [loan origination fees](#) cover the cost of processing and underwriting your loan. These fees go to your lender in exchange for underwriting your loan and generating your loan paperwork. You can expect to pay about 1% of your loan's value in origination fees.

Along with mortgage discount points, this will show up under the origination charges on your Loan Estimate.

Owner's Title Insurance

Owner's [title insurance](#) is optional, but it can protect you in a variety of scenarios. A title insurance company will cover you if the previous homeowner brings a lawsuit against you after you purchase the property.

For example, let's say a lien on the title of your home is uncovered 10 years after you buy the house. The title insurance company will reimburse you for the amount of your policy. Typically, [title insurance costs](#) an average of 0.5% – 1% of the home's purchase price.

Pest Inspection Fee

In some states, you're required to get a [pest inspection](#) before closing on your loan. Pest inspections are also sometimes required if you're buying a home with a VA loan. It may be required for other loans if the appraiser finds a problem with the home.

The average pest inspection costs about \$100, but it can be more or less based on the size of your house and the type of pest it's being inspected for. Depending on the situation, the buyer, seller or lender may cover the pest inspection fee.

Prepaid Daily Interest Charges

Your lender might ask you to pay any interest that accrues on your loan between closing and the date of your first mortgage payment upfront. The amount of interest you'll accrue depends on your loan amount and interest rate, as well as your closing date.

Private Mortgage Insurance (PMI)

Your lender will require you to pay [PMI](#) if you put less than 20% down at closing on a conventional loan. PMI protects the lender if you default on your loan.

Your lender might ask you to put down your first month's PMI premium when you close on the mortgage. The exact amount you'll pay for PMI depends on your lender, but most homeowners pay \$30 – \$70 each month for every \$100,000 they borrow.

With a conventional loan, you also have the ability to pay for part or all of a PMI policy upfront at closing in order to have lower or no monthly fees for mortgage insurance.

Property Tax

[Property taxes](#) are fees you pay to your local government to subsidize public services. Property taxes fund key institutions such as public schools, roads and fire departments. The amount you'll pay in property taxes depends on where you live and your home's value.

Your lender might require you to pay up to a year's worth of property taxes at closing. You can estimate your property taxes using public records and your appraisal value.

If you're buying a home from a family member or friend, you may want to ask them what percentage they paid in property taxes the previous year. This will give you the best estimate of how much you'll owe in property taxes on closing day.

Rate Lock Fee

Some lenders might charge you a fee to lock your interest rate, called a [mortgage rate lock](#), between getting initial mortgage approval and closing on the loan. You'll usually pay 0.25% – 0.50% of your loan value when you lock your rate. However, many lenders offer this service for free depending on the length of the rate lock.

Recording Fee

A [recording fee](#) generally costs around \$125 and is paid to your local city or county government to update public land ownership records. Be aware that the price of this fee can vary by county.

Survey Fee

In some states, you must get a [land survey](#) before you can complete a mortgage. The survey fee goes to the survey company that verifies and confirms your property boundaries.

before you close on the house.

Home buyers can expect to pay \$400 – \$1,000 for the land survey. You may pay more if you're buying a very large property or one with unusual boundary lines.

Tax Monitoring And Tax Status Research Fees

Tax monitoring and status research fees cover the cost of hiring a company to verify that your calculated property taxes are correct. This company will also notify your lender if you miss any ongoing property taxes. The amount of this fee will vary depending on where you live and which company your lender uses.

Title Search Fees

[Title searches](#) look for claims against a property you want to buy. [Liens](#), bankruptcies or unpaid back taxes can mean the seller doesn't technically own the home they're selling.

A title insurance company performs the title search in most states, while certain laws dictate whether real estate attorneys need to handle title searches in other states. Either way, expect to pay \$75 – \$200 or more for your title search.

Transfer Tax

Transfer taxes go to your local government in exchange for updating your [home's title](#) and transferring it to you. Like most local taxes, this fee will vary depending on where you live.

VA Funding Fee

You may need to pay a [VA funding fee](#) at closing if you buy a home using a VA loan. Your VA funding fee goes toward administrative costs for the VA loan program.

The amount of the funding fee is based on the down payment, whether it's a purchase or refinance, and whether it's the first time you've used your VA benefits. Let's take a look at how the amount of your VA funding fee differs based on these factors.

- If you put down less than 5% on your loan and you're a first-time VA user, your VA funding fee is equal to 2.15% of your total loan amount.
- If you make a 5% down payment, your funding fee is 1.5% of your (applies to first-time and repeat home buyers.)

- A 10% down payment lowers your VA funding fee to 1.25%. (This applies to first-time and repeat home buyers.)
- If you're refinancing from a different type of loan into a VA loan, the funding fee is 2.15% if it's your first use and 3.3% for a subsequent use.
- [VA streamline refinances](#) (also called Interest Rate Reduction Refinance Loans, or IRRRLs) have a 0.5% funding fee.

The funding fee can be waived if you're receiving VA disability or applying as a surviving spouse of a veteran who died while in service or as a result of a service-related disability. If you're a Purple Heart recipient serving in an active-duty capacity, you're also exempt from the VA funding fee.

How To Reduce Closing Costs

Closing costs aren't always set in stone. Here are a few tips you can use to potentially decrease the amount you'll pay at closing.

Shop Around For Lenders

As the buyer, you get to choose which mortgage company to work with. Don't be afraid to take some time to shop around for lenders.

Contact a few competing loan providers and [ask questions](#) about the types of fees they charge. Choose a lender that offers low fees and competitive interest rates for lower overall closing costs.

Ask The Seller To Contribute

If you're house hunting in a buyer's market, sellers might be willing to help cover your closing costs. If so, this can be a win-win situation for you and the seller: You get to pay less at the closing table, and your seller gets a faster home sale.

Make sure you understand how much your seller can contribute based on your loan type, though. Then, you can request certain seller concessions. Keep in mind that if market conditions are tilted in the seller's favor, asking for too many concessions may get your home offer rejected.

Mortgage Closing Costs: FAQs

Let's take a look at some questions you may still have about closing

How can I estimate my closing costs?

Average closing costs are typically 3% – 6% of the total loan balance. You may want to prepare to include potential closing costs into your budget when you start house hunting. You can also ask your lender and real estate agent about your area's property taxes and any additional fees required by the state that could be included in your closing costs.

When do I pay closing costs?

For most home loans, you'll pay your closing costs when you attend your closing meeting. At closing, your lender accepts your down payment funds and anything you need to pay in closing costs.

How long does the closing process take?

The amount of [time it takes to close on a house](#) often depends on your own organization skills, your loan officer's experience and the dependability of the seller. On average, though, the [closing process](#) takes about 30 – 45 days from the day you fill out your mortgage loan application.

Can my closing costs be wrapped into my mortgage loan?

Depending on your lender and your financial situation, you may be able to roll your closing costs into your loan. However, if you choose not to pay closing costs upfront, you'll pay more in interest over time. Instead of rolling those costs into your mortgage, you can see if the seller is willing to pay a portion of the closing costs to reduce your upfront expenses.

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The Bottom Line

Closing costs are processing fees you pay to your lender when you close on your loan. Closing costs on a mortgage loan usually equal 3% – 6% of your loan balance. Appraisal fees, your attorney's fees and inspection fees are examples of common closing costs.

The specific closing costs you'll pay depend on the type of loan you have, your home's value and your state's laws. Sellers may also need to pay for closing costs, depending on the sale agreement.

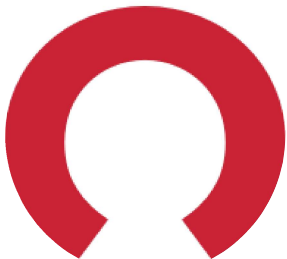
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Miranda Crace

Miranda Crace is a Senior Section Editor for the Rocket Companies, bringing a wealth of knowledge about mortgages, personal finance, real estate, and personal loans for over 10 years. Miranda is dedicated to advancing financial literacy and empowering individuals to achieve their financial and homeownership goals. She graduated from Wayne State University where she studied PR Writing, Film Production, and Film Editing. Her creative talents shine through her contributions to the popular video "The Red Desk," which were nominated for Shorty Awards. In her spare time, Miranda enjoys

engages in the entrepreneurial community, and savors a perfectly brewed cup of coffee.

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