



Hidden Closing Costs When Purchasing A Home

What Buyers Need To Know:



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The first thing buyers usually ask me when we begin a real estate transaction is,

“What will my costs be?”

As their attorney, I usually can not calculate the actual costs of their transaction until the day prior to the closing. This never seems to be enough time for buyers to gather their funds for the closing, so I try to give them a good estimate of what they might expect to pay as soon as possible. Sometimes they have already received a closing cost estimate from their lender called a “Good Faith Estimate” which is just that, an estimate of certain closing costs in their deal. Does it include all of their closing costs? The answer is almost always “NO.” In fact, there are many real estate closing costs that buyers may not find out about until they are on their way to the closing table unless they have been properly advised by their attorney. The following are a few examples of the lesser known costs a first time buyer may not know about, but should:



1) Tax and Insurance Escrow – Most lenders demand to pay the real estate taxes and insurance on a home directly to the municipality and insurance provider. Every month, in addition to the monthly payment of principal and interest, the lender will usually collect a tax and insurance escrow. At the closing, lenders often collect from two to five months of tax payments in advance so that they will have enough money to pay the next bill when it becomes due with at least two months surplus in their escrow account at all times. In addition, the lender will usually require that an annual insurance policy be paid in advance prior to closing. The costs of these escrows can run into the thousands.

2) Title Insurance – Upon the purchase of any real property, a lender will require that the buyer obtain title insurance. New Jersey regulates the rates of title insurance and the rate is based upon a sliding scale depending on the purchase price. A buyer can get reduced title insurance fees for new construction, or if the seller’s prior deed and title insurance policy is provided, or for a refinance or mortgage modification. Title charges also include a settlement charge (approximately \$300.00 to \$400.00), endorsements costs for any endorsements required by your lender, and recording fees.

3) Survey – Most lenders will also require that the buyer purchase a new survey for the property. If a buyer is lucky, the seller may have a recent survey available and, as long as there is no change to the property (such as a new swimming pool or addition to the home), the buyer can save that cost and

use that survey with an “affidavit of no change” to be signed by the seller at closing. Many lenders will accept a survey if it is less than five (5) years old. If no recent survey is available, the cost of a new survey can run somewhere from \$500 to \$1500 or higher depending on the size of the property. Since every surveyor charges differently, buyers should ask their attorney to obtain several estimates.

4) Realty Transfer Taxes – For nearly every real estate transaction in the State, a realty transfer tax is paid to the County Clerk based upon a sliding scale depending on the purchase price. The tax is due from the seller of real estate; however,

for residential property if the purchase price of the property exceeds \$1,000,000.00, the buyer is required to pay what is commonly referred to as a “mansion tax” in the fixed amount of one percent (1%) of the purchase price.

The “mansion tax” should only be taxed on the land and improvements, therefore, if personal property is being sold in the transaction and the cost of that personal property would make the land and improvement purchase price less than \$1,000,000.00, a buyer and seller can distinguish that in the contract of sale to avoid the “mansion” tax trigger. Buyers should be careful, however, that the personal property and price

allocated to it is legitimate and provable so that in the event the transaction is questioned or audited there is no risk that the parties can be accused of committing fraud simply to avoid paying the tax.

Buying a home for the first time may be a very stressful and confusing process. With the right legal representation, navigating through these closing costs should be as easy and straight forward as possible.

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