

# CLOSING COST DEFINITIONS

**APPRAISAL FEE:** Cost for lender's professional evaluation of the property's market value based on comparable sales, improvements on the property and location (*Fee usually set by the appraiser*).

**ASSUMPTION TRANSFER FEE:** Fee paid for processing, approving and facilitating the assumption of an existing mortgage secured by the subject property to new borrower(s).

**CREDIT REPORT:** Fee for the credit report(s) used by the lender in assessing credit risk.

**HAZARD INSURANCE PREMIUM:** Fee paid for coverage on the subject property for losses or damage due to fire or other named perils; typically required by lender for at least the loan amount.

**INSPECTIONS:** An examination of the property for various reasons such as termite inspections, mechanical inspections and roof inspections. Parties may also require follow up inspections after required repairs are completed.

**LENDER'S COVERAGE PREMIUM:** Fee paid to title company for issuance of lender's title insurance policy that indemnifies the lender in the event that clear ownership of property is challenged by the discovery of faults in the title.

**LOAN APPLICATION FEE:** Fee paid to the lender at time of application.

**LOAN DISCOUNT POINTS:** A form of pre-paid interest, equaling a percentage of the loan amount, paid to reduce the interest rate on a mortgage for the life of the loan. One "point" is usually 1% of the loan amount.

**MISCELLANEOUS LENDER FEES:** May include fees for underwriting, processing, tax service fee, warehousing, etc. Varies with each lender. Check with lender for disclosure and explanation.

**ORIGINATION FEE:** Fee charged by the lender or broker as compensation for providing origination services associated with the subject loan.

**OWNER'S COVERAGE PREMIUM:** Fee paid to title company for issuance of owner's title insurance policy that indemnifies the owner of real estate in the event that his or her clear ownership of property is challenged by the discovery of faults in the title.

**PMI PREMIUM/MIP PREMIUM:** Insures lender against loss in the event of default by borrower. Often required by lender if first loan exceeds 80% loan to value ratio (*PMI - private mortgage insurance - conventional loans; MIP - mortgage insurance protection - FHA loans*).

**PREPAID INTEREST:** Interest collected at settlement for a part of the month or other period between settlement and the date from which interest will be collected with the first regular monthly payment.

**PREPAYMENT PENALTY:** A fee charged for early payoff of the seller's existing mortgage loan. If the penalty applies, it should be stated in the existing mortgage instruments.

**PRORATED TAXES:** Contract terms dictate, but taxes are usually prorated between seller and buyer at closing. Figures are usually based on latest available taxes. Any shortages or overages due at the end of the existing year are between buyer and seller per the contract.

**REAL ESTATE COMMISSION:** An amount paid to the brokerage firm representing the consumer (*buyer or seller*) for real estate services agreed upon in the property listing agreement, buyer representation agreement, or by contract.

**RECORDING FEE/FILING FEE:** Fees for recording documents in public records.

**SETTLEMENT FEE/ESCROW FEE:** Fee paid for settlement service provider to conduct the loan settlement and/or real estate closing transaction. Services may include carrying out contract instructions, obtaining execution, disbursing sales proceeds, etc.

**SURVEY:** A statement (*drawing*) showing the corners, distances, and directions of the boundaries of a tract of land along with easements, encroachments, etc., and the location of all improvements located on the land as may be required in the contract.

**TAX SEARCH CERTIFICATES:** Certificate obtained to determine any unpaid property taxes or assessments that may constitute liens against the property.

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