How Do I Pay for Closing Costs? 10 Things to Consider

There is obviously no shortage of real estate advice out there offering tips for buying a new house, how to prepare your home for listing, where to find financing, and moving tips for a seamless transition. But what about handling closing costs? Do you really know what to expect to pay on closing day? And are you aware of the various methods for paying for those closing costs?

If you've been wondering about how to pay for closing costs, keep reading. We'll help shed light on what closing costs are all about, what you can expect, and a whole slew of ways to help you cover those closing costs.

1. What Are Closing Costs?

Closing costs are a real estate transaction term that collectively refers to a host of various fees that buyers typically pay when purchasing a property. These fees generally represent the professional services involved in facilitating the transaction itself. People who are responsible for preparing the paperwork, documents, and processes are compensated using these fees. Closing costs are industry-standard expenses and can include:

- Fees from any participating surveyors, appraisers, or loan processors involved in your transaction preparation
- Your first official property tax bill covering the first six months of your occupancy of the property
- The first year of homeowner's insurance, applicable private mortgage insurance (PMI,) and title insurance
- Any pay points you've chosen to pay in exchange for a better interest rate

2. How Much Should I Expect My Closing Costs to Be?

Of course, no two closing transactions are alike, and neither are closing cost amounts. But on average, lenders typically tell buyers to prepare two to five percent of their loan to put aside for closing. You'll know what your closing costs are precisely when your Loan Estimate document is prepared from your lender. So, prepare ahead of time and engage with your lender to know what your closing costs are going to be.

But now you're wondering, how do I pay for closing costs? Especially when you realize a $100,000 home purchase price could translate to a $2,000 to $5,000 closing cost bill, you're going to be keen on exploring the various methods for covering those fees.

3. Paying for Closing Costs Outright

If you've been saving funds to buy a home in Lehigh Valley, you might have enough in cash reserves to pay for your closing costs outright. Lenders will want to look at two months of bank statements showing your balance, also known as "seasoning" funds. And there are legal guidelines that require those down payment and closing cost funds to be in your personal bank account for at least 60 days before accepting your plan to pay for closing costs outright.
Be sure to clarify if you can write a personal check from an account or if there are requirements for a certified check instead. And as an additional note, don't cut yourself too short with your reserves, especially when it comes to covering any upcoming moving expenses and new household expenses.

For anyone who might be self-employed, there are provisions that allow you to transfer closing cost funds from a business account into escrow or to your personal account. Again, the 60-day "seasoning" rule will typically still apply. Your loan officer will be an ideal resource for questions you might have about your specific requirements.

4. Rolling Closing Costs into Your Mortgage

It's not uncommon for Lehigh Valley homebuyers to roll closing costs in with the mortgage. If you'd prefer not to pay for closing costs outright, talk with your loan officer about the type of loan you have. There are generally budget-friendly options, especially for first-time homebuyers, to add those closing costs to the mortgage total. The downside is that you'll be paying interest on these closing costs over the term of your mortgage. Based on today's home value averages, your monthly mortgage payment might increase $5 to $10 for every $1,000 you roll into the mortgage total. But if you're trying to maintain cash reserves, incorporating the closing cost into your loan can be a great method.

5. Getting Credit from the Sellers

Seller concessions are another way to help pay for closing costs. For example, in a USDA, VA, or FHA loan, you can ask the home seller to pay part of or every last dime of the closing costs. If you're in a seller's market, where there are lots of offers on the table, this request might not be successful. In some real estate scenarios, it might make sense to make the request more attractive by offering a higher price for the home in exchange for them covering closing costs.
It's also essential to recognize there are maximum amounts of seller concessions that might apply to your specific loan situation. These guidelines involve the type of occupancy, i.e., primary residence, secondary home, or investment property, along with Loan to Value (LTV) percentages. Discuss these viable options with your real estate agent and lending partner to know what guidelines to which you need to adhere before making your offer.

6. Government Assistance for Closing Costs

If you're hoping to find other methods for covering those closing costs, you might explore government assistance programs. There are local, state, and federal housing programs available to those who fall into certain homebuyer profiles. First-time homebuyers, low-income, moderate-income, and region-specific grants and forgivable loans might be able to help. Talk with your lender about these low-interest or forgivable programs, designed to provide the down payment and closing costs that sometimes deter homebuyers.

7. Employer Programs for Homebuyers

Depending on where you're employed and how long you've worked there, it might be worth talking with your employer about any company-sponsored homebuying programs. Some companies do offer incentives and perks that include short-term loans that allow employees to cover closing costs and down payments for a first-time home purchase. If your job offers such a program, or something similar, talk with your HR department about needed documentation and with your lender to confirm processing funds from such a resource.

8. Getting Friends or Family to Help

You could ask friends and family to help contribute to your closing costs. For legal reasons, most lenders require an official "gift letter" to verify the gift terms. And in some cases, you can set up an escrow account that others can freely contribute to without documentation. Talk to your loan officer about how it might work. And you can then rally your friends and family to help reduce the closing cost burden!

9. Secured Loans and Collateral

If you own other property or have valuable possessions to leverage equity with, you could explore collateral or secured loan options to cover closing costs on your home purchase. For example, any vehicles you own outright, recreational vehicles, or real estate property could present you with the equity you need to secure a loan or offer collateral. Be mindful, though, any secondary loans you explore will present interest rates and may impact your debt-to-income ratio needed to secure your new home loan. So, talk with your loan officer first to find your best way to leverage these other assets.

10. Lender Credits Can Offset Closing Costs

You might be able to talk with your loan officer about lender credits. This arrangement allows a lender to cover part of or all of the closing costs associated with your deal. In exchange, you will likely have to commit to a higher interest rate. You'll want to do your affordability cost analysis to see which makes the most sense for you, the short-term closing cost relief or the long-term better interest rate. But in many home buying scenarios, lender credits can be incredibly helpful for down payment and closing cost burdens.

Before you buy a Lehigh Valley home, consider all these options for exploring methods to pay for closing costs. Having the right real estate agent partner can be helpful, too. A professional will help you navigate buying a house and coach you through avoiding pitfalls and unknowns, as well as your resources and options, including those associated with closing costs.