

Estimated closing costs

What are the typical closing costs in a mortgage transaction?

Typical closing costs in a mortgage transaction include a range of fees and expenses that borrowers pay at settlement. Here's what's commonly included:

Lender and Origination Fees:

- Origination fees and loan fees
- Commitment fees
- Discount points (if the borrower chooses to buy down the interest rate)

Third-Party Costs:

- Appraisal fees
- Credit report fees
- Title insurance
- Attorney fees
- Survey fees
- Transfer taxes and tax stamps

Prepaid Items:

- Property taxes (prorated to closing)
- Homeowner's insurance premiums
- Flood insurance premiums (if applicable)

Other Closing Costs:

- Application fees
- Final inspection fees
- Pest inspection fees
- Non-recurring closing costs

Important Note on POCs (Paid Outside of Closing): Some of these costs may be paid before closing rather than at closing. These are called POCs and include items like appraisal fees, credit report fees, homeowner's insurance, flood insurance, final inspection, survey, and pest inspection. POCs affect your required cash to close and must be identified separately.

Seller Concessions: On purchase transactions, sellers or other interested parties may contribute toward closing costs. The maximum they can contribute varies by loan type and LTV ratio—for example, conventional loans allow up to 6-9% depending on the LTV, while FHA and USDA loans allow up to 6%.

What are the limits on seller-paid closing costs for my loan type?

The limits on seller-paid closing costs vary significantly by product and Transaction Types and LTVs. Here are the main options:

Conventional Loans: ^[1]

- **Principal Residence or Second Home:**
 - Greater than 90.01% LTV: 3%
 - 75.01% - 90% LTV: 6%
 - 75% or less LTV: 9%
- **Investment Property:** 2% (all LTV ratios)

FHA Loans: ^[1]

- **Principal Residence:** 6% of the sales price toward origination fees, closing costs, prepaids, and discount points

VA Loans: ^[1]

- **Principal Residence:** 4% of the established reasonable value of the property
- **Important note:** VA does not include closing costs in the seller concession cap—all other costs paid by the seller must be included in the 4% cap

USDA Loans: ^[1]

- **Principal Residence:** 6% of the sales price toward origination fees, closing costs, prepaids, and discount points

Key Point: Seller concessions cannot exceed the actual closing costs associated with the loan. For example, if seller concessions total \$5,800 but closing costs are only \$5,000, the maximum allowable amount applied is \$5,000 and no additional addendum required. ^[1]

Can seller concessions be used for repairs or other property improvements?

Yes, seller concessions can be used for repairs and other property improvements, though with specific guidelines. ^[1]

While seller concessions are generally provided for closing costs and prepaids, they're also acceptable when provided due to fixtures within the property needing replacement or being outdated—such as carpet, appliances, or paint. Examples include concessions in lieu of repairs, or a seller contributing funds specifically because of items like an outdated refrigerator or stained carpet. ^[1]

The key requirement is that the total amount of concessions cannot exceed the product's Interested Party Contribution (IPC) limit. For VA loans specifically, seller concessions for anything other than closing costs or prepaids are still subject to the 4% cap. ^[1]

How do agent credits factor into seller concession limits?

Agent credits are treated as Interested Party Contributions (IPCs) and must be combined with seller concessions when calculating whether the transaction stays within allowable limits. ^[1]

Here's how it works: When a real estate agent credits a portion of their commission toward the borrower's closing costs, the total amount of seller concessions plus agent credits cannot exceed the maximum IPC limit for that product and occupancy type. ^[1] For example, if a conventional loan on a primary residence with an LTV over 90% has a 3% IPC limit, and the seller is providing \$2,000 in concessions, only \$1,000 in agent credits could be used (assuming a \$100,000 purchase price).

Agent credits can come from the purchase agreement, an addendum, a processor's certification, or a letter from the agent—but no documentation is actually required since they can be provided verbally. ^[1] One important exception: if the real estate agent is a relative of the borrower on most products (except FHA), they can give an agent credit of their commission, but those funds can only be used for closing costs—not the down payment. On FHA loans, a family member agent may gift their commission to be used as an asset to cover funds to close, including the borrower's mortgage insurance. ^[1]

What happens if agent credits and seller concessions together exceed the IPC limit?

When agent credits and seller concessions together exceed the IPC limit, the combined amount must be reduced to stay within the allowable maximum. ^[1] The key principle is that seller concessions plus agent credits cannot exceed the allowable maximum IPC amount per agency guidelines. ^[1]

In practice, this triggers a condition that requires the broker to lower the combined agent credits and/or seller paid closing costs to be within the allowable limit. ^[3] For example, if a conventional loan on a primary residence with an LTV over 90% has a 3% IPC limit on a \$200,000 purchase price (allowing \$6,000 total), and the seller is providing \$4,000 in concessions plus the agent is crediting \$3,000, the total of \$7,000 exceeds the limit. The broker would need to negotiate with either the seller or agent to reduce their contribution so the combined total doesn't exceed \$6,000.

Can closing costs be financed into my loan amount?

Yes, closing costs can be financed into your loan amount, though the specifics depend on your loan type and situation.

For **purchase transactions**, Fannie Mae allows borrowers to finance closing costs and prepaid items in the loan amount. ^[4] When you include closing costs with other allowable items like mortgage insurance premiums or escrows, it's treated as a "prepaid mortgage insurance transaction." ^[4]

For **USDA loans**, closing costs and prepaids can be financed into the loan amount, but only if there's room in the appraised value over the purchase price. ^[5] The entire upfront guarantee fee can also be financed. ^[7]

For **cash-out refinances**, the new loan amount can include the actual documented amount of your initial investment in the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan. ^[6]

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