

Closing Costs No Small Part Of Purchasing

By Grant Tse

The sticker prices on most East End houses are intimidating enough, but closing costs—something that's often not factored into the budgets of first-time home buyers—can add tens of thousands of dollars to the ultimate price of the average Hamptons home.

A plethora of fees, taxes and incidentals drive up the cost of home buying by about 5 percent and sometimes more, industry experts say. Even those who have an inkling of what closing costs will be are often caught off guard.

John Bjornen, an interior designer who recently bought a Sag Harbor parcel, where he is building his first home, said he was aware there would be extra cost, but said, "I was still shocked by how much more it costs with all the pieces in."

In addition to the closing costs homebuyers all over the country must pay, East Enders have several other costs to deal with. Buyers here must pay the Community Preservation Tax, which is 2 percent of the amount of the purchase price more than \$250,000 on improved lots and more than \$100,000 on unimproved lots in Southampton, East Hampton and Shelter Island, and more than \$150,000 on improved lots and more than \$75,000 on lots in Riverhead and Southold.

The CPF fund was established to allow municipalities to purchase land for preservation—an anti-development measure that has generated millions upon millions, especially on the East End, since virtually all houses are priced more than the required minimum.

East End residents, by virtue of also being New Yorkers, must also pay two additional taxes, the mansion tax and the mortgage recording tax, both of which go directly to the state. The mansion tax is 1 percent on residences worth \$1 million or more—meaning at least \$10,000 at a time. The mortgage recording tax, which is specific to a smattering of states depending on whether they hold costs in escrow (New York does not), is 0.8 percent minus \$30 of the total amount of the mortgage. Mr. Bjornen said his mortgage was more than \$1 million, so he had to pay at least \$8,000 in mortgage tax.

Those taxes are in addition to the laundry list of fees and costs associated with a home purchase.

There are the charges associated with the title company, including both an owner's and mortgage title insurance policy, which protect the buyer and the bank in the scenario that a third-party has a legitimate claim to the deed of the



Par East's Patti Frank and Noah Brown.

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property. The buyer pays for both because the insurance company is essentially insuring the same house for two parties.

While the New York State Insurance Department sets the base rates, which decline as the price of the home increases, Jayme Place, who's worked as a title closer for more than 25 years, noted that because of a system of discounts, the final cost rarely match up with the formulas the state provides—they are usually far less. According to some good faith estimates prepared by Patti Frank, vice president of Par East Mortgage Company, an \$800,000 house would need about \$5,000 worth of title insurance, and someone buying a \$2.5 million house would pay about \$11,500 in title insurance.

Buyers also can expect to pay about \$1,000 or more in attorney fees and also about \$500 in other fees to the title company, which cover things like searches for open building permits and legitimate Certificates of Occupancy, as well as whether there are any liens against the property. Recording the title with county clerk also costs a couple of hundred dollars, based on the number of pages. The prices vary because, accord-

ing to Ms. Frank, some banks use five pages of paperwork, while others require 70.

If a buyer decides to take on a mortgage—and it is a privileged few who can afford not to—it brings another slew of costs. The bank assumes the worst case scenario when it comes to mortgages, that it will end up owning the property, so banks will go to exorbitant lengths—at the buyer's expense—to make sure there are no potential problems with the property. That usually includes an appraisal of the property, which can run anywhere from several hundred dollars to more than a thousand depending on the property, and might mean they will instruct the closer to do additional searches, which will add to the final tab as well.

The mortgage also comes with several hundred dollars in fees for all the paperwork involved. If the buyer finds the mortgage through a mortgage broker, which can usually provide more options than the standard 30-year mortgage, especially for those with not-so-great credit, it adds about another \$600 in fees, depending on the mortgage broker.

There are some costs waiting at the closing table, too. Because taxes and insurance premiums are paid during certain intervals of the year, the client may be liable for part of the next payment. School taxes, real estate taxes, and hazard insurance premiums are all prorated and paid for at the closing table. The seller will also charge for incidentals, like the value of the remaining gas or oil in the tank. Finally, the closer usually receives a gratuity of about \$200.

There is little room for negotiation when it comes to closing costs because they are a set schedule of fees and costs, according to Ms. Frank. "There's no negotiation—it's all black and white," she said. "There's nothing you can do to avoid them. Closing costs are standardized."

Ms. Frank prepares "good faith estimates" for her clients, which lists, as

close as Par East can estimate, all of the costs that will be incurred throughout the entire process.

"There are a lot of people who came in and say, 'So and so gave me a much a lower estimate,'" Ms. Frank said. "But that usually means so and so left out some costs to try to attract customers. Most honorable lenders will try to disclose all the costs up front."

Ms. Frank points out that brokers and lenders need to disclose only costs required by the Real Estate Settlement Procedures Act of 1974. Some of the costs that are often omitted, because they are not required by law, are the owner's insurance policy and appraisal fees, which can account for several thousand dollars.

On the other hand, if the buyer works with a trusted lender, the good faith estimate will help them avoid made-up fees that sometimes inflate final closing costs. Ms. Frank always suggests her clients take her good faith estimates to the closing tables, though she adds that any attorney worth his salt will be able to spot junk fees.

There is one standard method for coping with closing costs, called the seller's concession. While the costs are not reduced, they are rolled in as part of the mortgage package, and all costs at the closing table are paid for by the lender, eliminating the need for out-of-pocket cash at the cost of increasing the mortgage.

Ultimately coming out on top of the closing table isn't so much about trying to find a shortcut to cheaper costs—there are none—but trying to avoid any costly missteps.

Mr. Place advises people to find local attorneys, as even the best lawyers from outside the area may not be familiar with local costs like the CPF tax. A trusted bank and mortgage broker also goes a long way in avoiding long costs, and a good place to start is with the real estate broker.

"Any research that the client does pays off in spades," Mr. Place said.