



Save Thousands on Closing Costs

Elisabeth Leamy Covers Consumer Issues in Her Weekly Column, "Savvy Consumer"

By ELISABETH LEAMY

March 9, 2006— - *Author's note: Thursday I did a [story about real estate closing costs](#) on "Good Morning America." As I walked off the set at the end, the crew gathered around me and started peppering me with further questions about the topic. I realized I had struck a nerve!*

After all, often I can give advice that saves you tens or hundreds of dollars, but this is a chance to save THOUSANDS! So I decided to continue the conversation about closing costs in my weekly column.

Every year, Americans spend \$110 billion buying houses. I'm not talking about how much the homes themselves cost. I'm talking about how much the loans cost. American home buyers routinely pay abusive closing costs. There are two kinds: real fees that are inflated and junk fees that are just plain made up. It doesn't have to be that way. If you know what you're doing, you can save thousands of dollars when you go to the settlement table.

Here's the problem: when you apply for a loan, the mortgage company gives you a list of the fees you can expect. It's called a good faith estimate. What a joke! All too often these estimates aren't given "in good faith" at all. You see, there's no law requiring the mortgage company to stick to its good faith estimate. So when you go to closing a month later, often you'll find the fees have risen sharply or new fees have been added. The Department of Housing and Urban Development has been fighting to prevent lenders, brokers and title agents from padding closing costs. But the current law is weak, so courts keep siding with the mortgage industry. Until Congress passes a better law, it's up to you to protect yourself.

Years ago, when I closed on my first home, the fees were a whopping \$2,000 more than I had expected - - even though the mortgage company manager knew I was an investigative reporter. I can only imagine how that company treats customers who don't have a title like mine to fling around. Of course, I questioned every single line item, found several junk fees, and got the company to knock several hundred dollars off my closing costs. Let me fill you in on several ways the mortgage industry tries to get you.

Cleo S. wanted to refinance her home. The lender charged her \$50 for a so-called "funding fee." That's a euphemism for a simple wire transfer. First of all, wire transfers don't cost that much. Second, getting the money to the borrower is the lender's job and shouldn't cost extra. The lender also charged Cleo \$150 for a survey, but when you refinance, normally a survey isn't required. The title company took advantage of Cleo too. It charged her \$125 to record her deed with the county. But the county where Cleo lives only charges \$25 for that service. The fee was heavily padded -- pure profit for the title company!

There are a couple of proposals that could reform abusive closing costs like these. One idea is for groups of lenders, title agents, surveyors and appraisers to band together and offer package deals. The packages would be guaranteed, so consumers could shop and compare. These package deals are already starting to

be a reality. The other possibility is a law requiring lenders to stick to their original good faith estimates, or not stray by more than 10 percent. Even the mortgage industry supports this proposal. That would eliminate the bait-and-switch tactics so common today.

For now, the best thing you can do is learn the lingo and be ready to fight. Here's a breakdown of the typical fees you will see on your closing cost bill, called a "HUD-1 settlement statement." I explain what the fees are actually for and how much they typically cost in the Washington, D.C., area, where I live. Keep in mind these are rough estimates. Lots of factors can make these fees higher or lower (like where you live, whether you're a first-time home buyer, and if you have poor credit). Understanding what the fees are for will help you bargain them down.

Fees Imposed by the Lender

Loan Origination Fee: 1 percent of the purchase price

This is simply a way for the lender to make a bit of money up front. If you deal directly with a mortgage company, rather than with a mortgage broker, this is how the loan officer makes his money. The loan origination fee is another name for a "point" and it is tax deductible.

Loan Discount

The "loan discount" refers to the "points" you pay to buy down your interest rate. If you choose to pay points, each point will be 1 percent of the loan amount. Take out a loan for \$100,000 and one point will equal \$1,000. As a general rule of thumb, for each point you pay, you buy down the interest rate by 0.25 percent. So, for example, you could pay zero points and get a 7.75 percent interest rate. Or you could pay three points and get a 7 percent interest rate. If you don't plan to keep the home long, points can be expensive for you. If you plan to stay put a long time, points begin to pay for themselves. If you are purchasing a house, points are tax deductible the year you take out the loan. If you are refinancing your house, you have to deduct the points over the life of the loan.

Underwriting Fee: \$150-\$325

Some lenders charge a fee to weigh the risk of doing business with you. Critics say this fee shouldn't exist, because underwriting is an integral part of what a lender does. It would be like a carpenter charging an extra fee for carrying his tools into your house. But lenders now routinely charge back-end fees like this so they can keep their interest rates low, which is how they attract customers. You may be able to negotiate a lower underwriting fee.

Document Preparation Fee: \$75-\$325

Lenders have to prepare several documents in the process of granting you a loan. Some charge for it. This is another fee often criticized by consumer advocates. You may be able to negotiate a lower fee.

Administrative Fee: \$390-\$550

This fee covers underwriting and document preparation. Some lenders lump the two together and call it their "administrative fee." Again, you may be able to negotiate.

Funding Fee/Wiring Fee: \$0-\$30

This fee is supposed to cover the cost of wiring your loan money to whomever is conducting your closing. Lenders never used to charge this fee. Critics say they still shouldn't because getting the money to you is part of their job. Try to get the lender to waive this fee.

Credit Report: \$15-\$60

Lenders and brokers pull your credit report to see if you have a positive payment history. If they require

a full residential mortgage credit report, that's more expensive because the credit reporting agency actually takes the time to call your creditors and verify the items on your credit report. Some lenders are not satisfied with a simpler credit report called a "tri-merge" that contains information from all three major credit bureaus and does not get manually verified. This is a fee that often gets padded. Since an outside company provides this service, ask for a receipt to verify the true cost and don't pay a penny more.

Tax Service Fee/Escrow Fee: \$58-\$89

Lenders like to make sure you are paying your property taxes, because if you're not, the county can seize your home and the lender won't get paid. Most lenders require you to send extra money along with your mortgage payments. The lender collects that money in an escrow account and then pays your property taxes for you. If you make a big down payment, you're allowed to pay your property taxes yourself. But the lender still hires an outside company to monitor whether you're paying your taxes. This fee covers that service. If you plan to pay your property taxes yourself, this fee should be at the lower end of the scale.

Appraisal Fee: \$100-\$500

Lenders require a professional appraisal so they will know if the home you are buying is worth the amount of money they are lending you. If you are refinancing, the lender may be satisfied with a "drive-by" appraisal, which is much less expensive. Either way, ask your broker or lender for a receipt showing which appraiser did the work and how much it actually cost. Don't pay an inflated fee.

Survey Fee: \$0-\$250 A survey is performed to make sure the boundaries of your property are clean and clear. Surveyors look for things like misplaced fences and shared driveways that may cloud property lines and cause a dispute. Lenders ask you to pay for a survey if you are buying a new home. If you are refinancing, they may be willing to "recertify" the existing survey at no cost. Surveys do not apply to condominiums, but watch out, because some lenders tack them on anyway. Once again, surveyors are outside companies. Demand receipts and don't allow upcharges.

Flood Certification Fee: \$11-\$25

If you are buying a single-family home, the lender will want to have a flood survey done to see if the house is in a flood zone. An outside company will review government charts to find out. If you are buying a condo on an upper floor, you should not have to pay for a flood certification, but beware, some lenders charge for it out of habit. This is another outside service for which you can get a receipt.

Hazard Insurance: \$300-\$600

Lenders require you to purchase at least fire insurance to protect the property since it's collateral for the loan. Most buyers choose to purchase full homeowner's insurance, which covers fires and other disasters. The lender must approve the insurance company you choose. Some brokers and lenders will try to sign you up for a full year's coverage, which can be difficult to afford at the same time as all these other closing costs. Ask questions. Most lenders are satisfied if you pre-pay two to four months of insurance.

Interest

If you are refinancing, avoid scheduling your closing for the beginning of the month. Why? Because that means there are several days worth of interest which you will either have to pay at closing or roll into the mortgage. It's hard enough to come up with the cash for closing. And you don't want to raise your mortgage any higher.

Fees Imposed by the Broker

Mortgage Broker Fee: 1 percent to 5 percent of the loan amount

Your mortgage broker is entitled to make a commission for the work involved in finding you a loan. This fee is tax deductible. The amount is regulated by the government. In some states the percentage is not capped, but brokers are required to disclose their fees in writing and get the borrower's signature of approval. In one state, mortgage brokers cannot charge more than 8 percent of the loan amount. Find out what the rules are in your area.

Keep in mind, brokering loans is a competitive business, so most brokers charge well below the legal limit. If you have good credit, you will qualify for a "prime" loan, and you can expect to pay your mortgage broker 1 percent to 1.25 percent of the loan amount. If you have poor credit, you will be given a "sub-prime" loan and chances are your broker will charge 3 percent to 5 percent because finding you a loan takes more work. If the percentage is any higher, ask hard questions and shop around to see if you can get a better deal.

If you cannot afford to pay high closing costs, including the broker's fee, there is an alternative called a "yield spread premium." In this scenario, the broker pays some or all of your closing costs for you. In exchange, you pay a higher interest rate on the loan. The broker makes his money by charging the lender a fee. Lenders are willing to pay these broker fees because higher-interest rate loans bring them more money in the long run.

CAUTION: yield spread premium deals are only legitimate if you pay low or no closing costs in exchange for paying a higher interest rate. If you are paying a high interest rate and your closing costs are still high, that's illegal, and you may be a victim of predatory lending.

Fees Imposed by Title Agent and Settlement Attorneys

Closing Fee: \$350 for a purchase (split between buyer and seller). \$150-\$350 for a refinance

Your closing is the meeting where you sign all the paperwork to finalize your loan and purchase the home. Closings can be conducted by title agents or by real estate attorneys who double as title agents. In some parts of the country they are called "escrow agents." The government does not regulate these professionals when it comes to fees. It's up to you to shop around and find the best rate. Don't automatically hire the title agent recommended by your Realtor or mortgage broker.

Settlement Fee

A "settlement" is the same thing as a "closing." It should not be an additional cost, but unscrupulous operators have been known to add it as a separate line item and double charge.

Abstract or Title Search: \$150-\$225

This fee is charged by the title agent to cover the cost of sending somebody to the courthouse to research the history of the property you want to buy. They look to see whether the seller really owns the property free and clear and has a right to sell it to you. Some title agents have somebody in-house who does this work. Others hire an outside company. If yours hires an outside company, as always, ask for a receipt.

Title Examination: \$0-\$400

This is the fee some title agents charge to analyze the results of the title search done at the courthouse. They look for liens, judgments and ownership disputes that may hurt you or the lender later on. Many title professionals consider this just an extension of the abstract or title search and charge nothing. Others consider it a separate function. Again, shop around for the best deal.

Title Insurance Binder: \$0-\$50

Title insurance is provided by big national insurance companies. Title agents are generally small, local firms. The title insurance binder is the insurance company's promise to provide title coverage once the sale is complete. It is prepared by the local title agent, who acts as a broker for that insurance company. Some title agents include it in the cost of the title search or title exam.

(Title) Document Preparation: \$0-\$100

The lender prepares the bulk of the documents required to close a loan and buy a home, but title agents prepare some too. Some charge for this, many include it under other line items.

Notary Fees: \$7-\$20

Title agents must get some documents notarized for you. Most have an in-house notary but still pass along the cost to you. Ask how many pages had to be notarized and the price per page. You may be able to negotiate.

Release of Lien Fee: \$0-\$100

This is the fee for getting the county to change the records so the old homeowner and old lender are no longer listed as owners. Some title agents include this service under another heading. Others list it separately so you know exactly what you're getting. Good title agents often complain that the bad apples in their industry charge for this service but never do it. That leaves multiple ownership records in place for the same property.

Attorney's Fee:

This should be the same as the fee called "settlement" or "closing" fee. If a settlement attorney performs your closing, they may list this service under "attorney's fees" instead.

Courier Fee: \$0-\$100

Title agents sometimes hire a courier to transport your documents. However, many "estimate" this fee rather than charging you exactly what they were charged. Others charge for a courier service even though they didn't actually use one. Ask for receipts.

(Title) Administrative Fee:

Some title agents lump document preparation and courier fees into one category and call it an "administrative fee."

Title Insurance: Loan amount multiplied by 0.0250 for lender's coverage. Loan amount multiplied by 0.003 for lender's and homeowner's coverage.

Title insurance protects you and the lender in case something was missed during the title search. For example, if the county misspelled a name, somebody with a claim to your property might not show up during the title search. Lenders require you to buy a "lender's" policy to protect their interests in the property and many people purchase a homeowner's policy to protect themselves as well. The formulas above are very rough guidelines of what you can expect to pay. In fact, I just bought my second home, and by shopping around and playing several title companies against each other, I saved \$1,200 on my title insurance.

In most states, if you are refinancing or if you are buying a house that the seller purchased less than 10 years ago, you can qualify for the "reissue rate" on your title insurance. All you have to do is get the seller to provide a copy of THEIR existing title insurance policy on the house. Having it in hand means less work for YOUR title company, so they should give you the "reissue rate." The discount is typically 40 percent and can mean hundreds of dollars in savings! The government does not require lenders to offer you the reissue rate, but you should always ask about it. Some title agents will pretend they don't know what you're talking about because it cuts into their commission. Other title insurance companies require their title agents to offer the reissue rate. Once again, you can save money by shopping around in advance for the best title agent.

Fees Imposed by the Government

Recording Fees

This is simply the amount the county clerk charges to make a record of the fact that you are purchasing the property. If you're refinancing, typically you still have to pay this fee because the county has to record the new lender's name. Some title agents try to pad this fee. Call your county recorder of deed's office to find out the true cost.

Tax Stamps

This is a tax charged when a property changes hands. The amount is based on the purchase price. It's sort of like a sales tax. It's just a chance for the county or state to collect a little money. If you're a first-time home buyer, the amount may be less. Some jurisdictions do not charge tax stamps when you refinance. Others base the charge on the difference between the amount of your old loan and your new one. Call your county office of taxation and revenue to learn the formula.

Recordation Tax

This is the same as "tax stamps," just another name for it.

Transfer Tax

This is another opportunity for the government to collect money. It's a percentage of the purchase price. Many jurisdictions do not charge this tax if you're refinancing. Call your county office of taxation and revenue to learn how this tax is calculated and whether it even applies to you.

To be a SAVVY CONSUMER ?

Do your homework:

1. Shop for mortgages through several different lenders and compare the closing costs on their good faith estimates. Aggressively question the companies as to whether the figures on the estimates could change. Remember, the company with the lowest estimate, could pull the biggest bait and switch.
2. Shop around for the title agent or settlement attorney who offers the best overall deal. Get a written quote, and if additional charges appear at closing, dispute them.
3. Forewarn your mortgage company, mortgage broker and title agent that you will not pay padded closing costs for services performed by outside companies. Let them know you plan to ask for receipts.
4. Scan your good faith estimate for fees that don't apply to you if you're refinancing or buying a condominium.

5. Find out whether there's a cap on the fees mortgage brokers are allowed to charge in your state.
6. Find out whether the current owner purchased the property less than 10 years ago. If so, ask for a copy of their title insurance policy. Inquire about getting the reissue rate. If the title agent plays dumb, ask which national title insurance company they represent and call that company directly to learn its rules on reissue rates.
7. Call your local government and find out how it calculates real estate taxes. Don't let the title agent pad those government fees.

How to Complain:

If a lender does you wrong, try your state banking division. You can contact your state department of licensing to make a complaint against a mortgage broker. In some states the insurance commissioner governs title agents. If your title agent is an attorney, you can complain to the bar association.

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