

## HOW TO NEGOTIATE LOWER CLOSING COSTS

Closing costs can be confusing; however, it is worth your while to look closely at all the charges associated with closing on a home. Sometimes by simply asking about the charges you will find that the lenders and title company are willing to negotiate lower rates.

Closing costs basically break down into four categories:

- **Lender fees:** the costs of getting a mortgage
- **Title fees:** the charges for establishing and transferring ownership
- **Prepaid costs:** not fees, but charges due at closing
- **Impound/Escrow accounts:** not fees, but money deposited into an account for future bills

### LENDERS FEES

When buying a home the first document you will receive related to closing costs is the "Good Faith Estimate". Lenders are required to provide you with this document no later than three business days after submitting a loan application. The amounts listed on the "Good Faith Estimate" are just that, estimates. Actual costs may vary.

Because the lender is the one who prepares the estimate, many buyers associate all the closing costs with the lender. This is not correct. Some of the costs go to third parties like the title company, attorneys, closing agents, title insurance, tax stamps, etc.

When you receive your "Good Faith Estimate" you should ask your lender which charges are associated with the loan and which charges are paid to the other parties. Once you can identify the loan charges ask the lender to go through them item by item. Ask what each fee includes since several items may be lumped into one fee.

Fees that are established when determining the interest rate:

Discount points (1% of loan amount): Discount Points are used to reduce the interest rate. Not every loan will have discount points. A general rule of thumb is that one full Discount Point will lower your fixed interest rate .250% or your adjustable rate .375% and the longer you'll keep the loan, the more attractive points become.

These Lender's fees are considered standard on most loans and have less room for negotiations:

Appraisal Fee (\$250-\$400+): Is paid to the lender to cover the cost of a written report which estimates the monetary value of a property on the open market. The higher home value, generally, the more the appraisal will cost.

Credit Report (\$10-\$35): The credit report is prepared by a credit bureau and used to determine the loan applicant's creditworthiness.

Flood Certification (\$15-\$30): This is the cost of the automated service that advises the lender if the property is located in a flood plain. If it is, the lender may require flood insurance.

Tax service fee (\$75-\$90): This is a fee that covers that cost of the lender monitoring the payment of your property taxes.

Pest and other inspection (\$55-\$75)

Wire Transfer Fee (\$15 -\$20) Cover the cost of the wiring the funds from the lender to the seller.

The following fees are a little less straight forward and worth you time to get a detailed explanation. Part of the dilemma is there are no industry standards that regulate the names used for the various fees or industry standard practices for charging all or any fees. You should always compare the costs to what other lenders are charging (see Lender Fee Comparison Worksheet).

### Example of a Good Faith Estimate

HUD-1	DESCRIPTION OF CHARGES
801	Loan Origination Fee @ % + \$
802	Loan Discount Fee @ % + \$
803	Appraisal Fee
804	Credit Report
805	Inspection Fee
806	Mortgage Insurance Application Fee
807	Assumption Fee
808	Mortgage Broker Fee @ % + \$
809	Tax Related Service Fee
810	Processing Fee
811	Underwriting Fee
812	Wire Transfer Fee
813	Application Fee
814	Commitment Fee
815	Lender's Rate Lock-In Fee
901	Interest @ /day for days
902	Mortgage Insurance Premium
903	Hazard Insurance Premium
904	County Property Taxes
906	Flood Insurance

Origination Fee (% of loan amount): The "origination fee" is a fee charged by a lender for processing a loan application, and is expressed as a percentage of the mortgage amount.

You may see the fee used in two different contexts. One is a charge normally associated with sub-prime mortgage. These loans traditionally require more work than a standard (good credit) loan and this is a fee to compensate the added work.

The commission paid to the broker is sometimes also referred to as the Origination Fee.

The down side is that if you negotiate this fee away, you may take the incentive away from your loan officer to get the job done and you may not end up getting your mortgage<sup>1</sup>.

Broker Fee (\$any): If the Origination Fee is not charged to pay the broker commission you may see the fee listed as the Broker Fees. HUD suggests that you ask whether a broker is involved. Some financial institutions operate as both lenders and brokers and most brokers' advertisements do not use the word "broker", so it is not always clear if there is a broker involved.

This information is important because brokers are usually paid a fee for their services that may be separate from and in addition to the lender's origination or other fees. A broker's compensation may be in the form of "points" paid at closing or as an add-on to your interest rate, or both. Ask each broker you work with how he or she will be compensated so that you can compare the different fees. If a broker fee is charged, an origination fee would normally not need to be charged. Be prepared to negotiate with the brokers as well as the lenders.

Processing fee (\$250-\$595): Similar to the underwriting fee, this is the cost of processing your loan. If you are charged an underwriting fee ask for clarification on the processing fee.

Underwriting fee (\$300-\$350): This fee vary based on the type of loan and the rate. Before computers made it fairly easy for lenders to draw their own loan documents, they used to hire specialized document preparation firms for this function. This was the fee charged by those companies. Nowadays, lenders draw their own documents.

Application fees (\$300-\$595): Application fees often cover items such as appraisal costs and may be charged up front so the lender does not get stuck with the cost of an appraisal (should you cancel

<sup>1</sup> Ezinarticles.com Closing Costs - Understanding Mortgage Lender Settlement Fees, Anthony Kirlew

your transaction). Application fees may also be charged in conjunction with sub prime loans when additional services (such as credit repair assistance) are needed. Some companies charge an up front application fee to ensure that the borrower doesn't go elsewhere and this is a legitimate business practice. In a case where all other fees are charged (appraisal, processing, and underwriting), this fee can be negotiated out.

Commitment Fee (\$200 – 1% +): This is often pure profit, especially if a processing fee and an underwriting fee are charged. Ask the lender what the fee covers; if your loan officer doesn't know immediately, or has to "check with someone", that is a sign that you may want to move on either because the fee is bogus, or the loan officer doesn't know his or her job. Bottom line here is two points<sup>2</sup>:

1. If you are paying a commitment fee along with an underwriting fee and a processing fee, this is most likely pure profit to the company and can be negotiated.
2. The higher the commitment fee is, the more it should cover. For example if a company charges a 1% commitment fee, I would not expect to see many other lender fees.

Loan Lock Fees (\$any): Question this fee, there is no real reason to pay a fee to lock your loan other than an application fee.

Document Preparation: Basically, a different name for the processing or underwriting fee

Administration Fee: Again, basically the same as the processing or underwriting fee

In some cases you may be required to pay the Application Fee, Appraisal Fee and Credit Report Fee up front.

In 1974 HUD (U.S. Department of Housing and Urban Development) established The Real Estate Settlement Procedures Act (RESPA) for the consumer's protection, in order to try to prevent predatory lending practices. RESPA requires that borrowers receive disclosures including Good Faith Estimate and HUD-1 Closing Statement which spell out the costs associated with the settlement, outline lender servicing and escrow account practices and describe business relationships between settlement service providers. Full the full list of disclosures refer to <http://www.hud.gov/offices/hsg/sfh/res/sc2sectq.cfm>.

See next month's Rose Report for details on Title fees, Prepaid costs and Impound/ Escrow accounts.

Resources for this article include KCHomeBuyer.com, HomeBuyerBeware.com, Ezinearticles.coms GoodMortgage.com and WomensFinance.com