

Your Savvy Can Help Buyers Avoid Extra Fees, by Eugene A. Crane
Real Estate Today®, Nov./Dec. 1989, pp. 55-57.
Reproduced with permission of the copyright owner.
Further reproduction or distribution without permission is prohibited.

Your Savvy Can Help Buyers Avoid Extra Fees

You can give buyers background to help them avoid paying questionable fees.

*Eugene A. Crane
Beverly Hills, California*

Today, if you're explaining home mortgages to buyers shopping for one, you have to explain more than just interest rates and points. Because of widely varying fee practices among lenders, the buyers could end up paying one lender hundreds—even thousands-of dollars more than they would pay another lender for a home mortgage loan. In fact, a 1980 study by the Department of Housing and Urban Development (HUD), the most recent study documenting the way that fees are charged, showed that loan fees can add a whopping 6 percent or more of the loan's value to the closing costs. Overall, the HUD study found that some charges varied by as much as 100 percent nationwide, with "little or no corresponding difference in the cost of operations" among the companies surveyed.

To give buyers more help when they're loan shopping, you can explain the fees typically charged for mortgage loans. That way, buyers can determine whether a lender's standard fees are in line with those of the rest of the lending industry. Also with this background information, buyers might be able to avoid paying fees for certain services at one lending institution that they might not be required to pay for at another.

Everybody Has Fees

All lenders will charge fees for services during the mortgage loan process. But too many buyers compare only interest rates, points, and loan-processing fees. They know that origination points typically range from 1.5 to 4 percent of the loan and that the loan-processing fee can range from \$200 to \$500. These charges typically cover the lender's cost of originating and processing a loan and the lender's fair profit. But some lenders charge for a lot more services than these, and buyers need to know what they'll be charged for and why.

In addition to the loan-processing fee, most lenders will also charge buyers a credit evaluation fee and a tax service fee. And in many cases, buyers will find that local real estate laws require that additional services be provided by an attorney or that the state or local government or both require certain charges. However, buyers should be aware that even "standard fees" may be way overpriced. For example, credit evaluations can range from as little as \$25 to \$50 or more for each report. Some lenders, on the other hand, charge buyers a flat fee regardless of the number of credit reports they run or agencies they use.

The list of charges a buyer might be required to pay but should ask the lender about includes fees for document preparation, inspection, underwriting, warehousing, delivery, and notarizing. Some of these fees can be costly, and when added together, they can be staggering. Buyers might be able to save money by looking for a lender that doesn't charge separately for these services but rather includes all such costs in the points and the loan fee.

Many Fees at Many Costs

In more than a dozen real estate markets nationwide, from California to Florida, New York, and Washington, D.C., lenders charge questionable fees, according to a recent survey by the Great Western Bank, based in Beverly Hills, California. This is true not only for small thrifts, commercial banks, and mortgage companies but also for some of the larger lenders in each market.

For the Great Western survey, employees at the company's home loan offices in nearly all the major markets tracked down loan fee information from the lenders in their area. They found that document preparation fees ranged from \$50 to \$395; loan-processing fees, \$75-\$525; underwriting fees, \$25-\$175; warehousing fees, \$100-\$200; and inspection fees, \$25-\$100.

The survey also found that some lenders charged obscure fees, such as \$10 for an "amortization schedule," \$165 for a "loan setup fee," \$100 for a "secondary marketing fee," and \$375 for an "administrative fee." You sell real estate—do you recognize these terms? If you don't, chances are they'll mean equally little to buyers.

Part of the problem is that fee terminology varies widely throughout the country. For example, in New York, one lender charged \$175 for "loan processing," and a lender in Florida charged \$150 for "document preparation." Most likely, they were identical services hiding behind different names.

Buyers Beware

What can you tell buyers searching for the right lender? Explain that they can ask a lender to list the up-front fees and extra costs that may be charged on their mortgage loans. They can also ask whether a lender can provide them with a summary of the fees typically charged in a mortgage loan transaction. They might wish to seek out a nationwide mortgage lending institution that may be able to shed light on regional differences in fee practices and terminology.

It's important, too, that buyers carefully read the estimate the lender provides detailing the loan costs and that they know that many laws can work in their favor during the mortgage loan process. For example, the Truth in Lending Act requires lenders to disclose, in advance, all the financial terms that affect the cost of borrowing money in a purchase transaction. Also, the Real Estate Settlement Procedures Act, which applies to federally regulated mortgage loans, requires that lenders disclose all the costs and fees associated with a mortgage loan, from insurance policies to processing. In compliance with these federal regulations, buyers should insist that a lender provide them with a "good faith" estimate statement that clearly details all costs and fees associated with the loan.

Finally, when an up-front fee, such as that for a loan application, is required, buyers should ask whether it's refundable. Since most up-front fees are not refundable if the transaction is terminated before completion, they should ask before beginning the mortgage process.

Even More Savings

Fees for applications and appraisals may be charged separately, in addition to the points and the loan fee. Unless the fees are required by local statute, buyers might save money by searching for a

lender that doesn't charge for a mortgage application. Most lenders that originate a high volume of home loans solicit mortgage applications without charging a separate application fee. When the application is approved and the loan is closed, those lenders recover their costs through the origination points charged. This can save a buyer \$50-\$500 in up-front costs.

Also, most lenders charge separately for appraisals, which, according to the Great Western fee survey, can range from \$200 to \$500. But buyers should look for those few lenders that provide this service without charge because they have an in-house appraisal staff. It can mean substantial savings for the borrower. Well-capitalized lenders often provide both of these services as part of the origination cost.

Good Business for You

Smart salespeople realize today's buyers will be tomorrow's sellers. So these same salespeople will explain the mortgage process to buyers so that they can identify lenders that might actually save them money during a mortgage loan transaction. Offering information that might help buyers choose a lender that charges reasonable fees for the market area can save buyers hundreds, even thousands, of dollars. And that can translate into increased future income for you.

Look Out for Unusual Fees

Buyers should question lenders about fees they're unsure of. Some of the fees they might question include the following:

- Amortization schedule fee—A charge to provide a borrower with a schedule of how the loan is amortized.
- Appraisal review fee—A charge made to review and appraise property.
- Courier fee—A charge for sending a document by messenger.
- Credit report review fee—A charge to review a credit report, for which a credit evaluation fee may already have been charged.
- Document preparation fee—A charge for preparing paperwork to get loan documents in order.
- Inspection fee—A charge for inspecting a property for which a loan will be made; not an appraisal.
- Loan-processing fee—A charge for processing a loan.
- Notary fee—A charge for notarizing a document.
- Photo inspection fee—A charge for photographing a property or reviewing a photograph of a property.
- Underwriting fee—A charge for reviewing loan documents, credit reports, and an appraisal report to determine whether the loan meets the lender's approval standards.
- Warehousing fee—Although there's no clear definition, this may be a charge for keeping docu-

ments on file, holding the loan for sale in the secondary market, or covering the cost of funds held by the lender before the loan is sold in the secondary market.

Other fees, which only the lender can define, include "administrative fee," "trustee fee," "financing statement fee," and "computer fee."

| Exhibit I | |
|---|-----------|
| Extra Fees Can Add to Loan Costs | |
| Here's a thumbnail sketch of how much more money a buyer may end up paying for a \$100,000 loan in extra fees not included in the origination fee.* | |
| Inspection/photo fee | \$ 50 |
| Document preparation fee | 50-200 |
| Processing fee | 250-300 |
| Insuring/guaranteeing fee | 50-100 |
| Funding fee | 150 |
| Endorsement fee | 100-200 |
| Trustee fee | 25 |
| Setup/shipping fee | 50 |
| Warehousing fee | 50 |
| A buyer could be saddled with even more fees, including the following. † | |
| Application fee | \$ 50-500 |
| Appraisal fee | 200-500 |
| Underwriting fee | 25-175 |
| Notary fee | 2 |
| Courier fee | 10-15 |
| Amortization schedule fee | 10 |
| In a worst-case scenario, if charged all these fees, a buyer would end up paying an additional \$2,327 for a \$100,000 loan. | |
| * Compiled by the California Association of REALTORS®. | |
| † Compiled by Great Western Bank. | |

Eugene A. Crane is executive vice president of Great Western Financial Corporation.

Your Savvy Can Help Buyers Avoid Extra Fees, by Eugene A. Crane
Real Estate Today®, Nov./Dec. 1989, pp. 55-57.
Reproduced with permission of the copyright owner.
Further reproduction or distribution without permission is prohibited