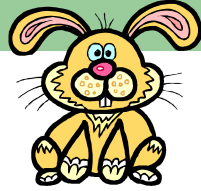


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Happy Easter

Rod@
MortgageStraightTalk.com

placing the loan with them. But between brokers and borrowers, it's known as a "zero-point" loan because the lender, not the borrower has paid the origination fee. To stay in business, every broker is entitled to make a point on a straight-forward refinance or purchase, or more, if it's especially difficult, complicated or small because the work on a \$50,000 loan and a \$500,000 loan is essentially the SAME. The major difference is that the latter pays ten times better. Borrowers, also, need to realize that not all of the rebate or origination fee goes to the broker—it is divided between the broker and the brokerage he or she works for.

OOPS

In accordance with my commitment to educating readers of this newsletter about the lending process in the belief that an informed borrower makes for a better client I had previously stated that this issue's topics were to be on Custom Pricing and Loan Fees. To do justice to the latter, I've opted to enlarge my coverage and subdivide it into two categories, namely, Closing Costs and Settlement Fees. Brokers and agents use them interchangeably but there is a distinction and I'd like to cover that, today, and go into each in greater depth in subsequent issues. "But first", as talk show hosts say on TV, "a word from our sponsor....."

ANNOUNCING THE INTRODUCTION OF CUSTOM PRICING

As I pointed out in the piece I wrote for the L.A. Times: IT REALLY PAYS TO SHOP AROUND FOR A MORTGAGE BROKER. As brokers we all have access to the SAME programs, and the SAME rates. Since the wholesale rates are essentially the SAME, the variance in the rates quoted to a borrower is solely due to what the broker is looking to make on your loan. Typically, brokers price loans with a "back end" point or rebate built into the quote. This is a commission paid to the broker by the lender for

This month, I'm instituting a policy of letting clients "CUSTOM" price their loans. Borrowers can either pay my fee of 1% to 1 1/2% over the wholesale (or "par") price or have a "zero point" loan where the lender pays my fee in the form of a rebate or some combination thereof. For a purchase, my fee (whether it be from the borrower OR the lender) is a POINT (1%) on "A paper" loans and a point and a half (1 1/2%) for a refi. As there are always "doubting Thomases" who are quick to say, "How do I know that's the 'real' wholesale price?" In the spirit of full disclosure, I'll show you the wholesale rate sheets, if you so desire.

RULE #1

I have but one rule to be a client—it is mutual respect—I won't waste your time and I look for the same in return. If I can return your calls, clients need to be willing to do likewise. As a discount broker I can't afford to waste time—the profit margins are too thin and---TIME IS MONEY!

LOAN FEES OR CLOSING COSTS

As I mentioned a moment ago, Loan Fees, Closing Costs, and Settlement Fees are used indiscriminately by brokers and borrowers alike.

The confusion regarding nomenclature stems from there not being an industry standard for the names of the various fees, nor is there a standard practice of charging for all or any of the fees, especially “junk” fees. In addition, fees and costs are not determined solely by the lender, but also include local state, county and city fees, attorney or title company fees, pre-paid interest based on what day of the month your loan closes, pre-paid escrows based on what month of the year you close and underwriting fees may vary based on the type of loan and the rate.

Still in all, there are distinctions to be made. Strictly speaking, closing costs are costs associated with the loan closing whereas settlement fees include closing costs, pre-paid interest, escrow reserves for taxes and insurance, and the down payment (if the loan is for a home purchase).

DIFFERENT STROKES FOR DIFFERENT FOLKS

In broker parlance, closing costs, are typically equated with all non-recurring costs. Closing costs in this context are usually run in the neighborhood of \$3000 and it is this figure that most brokers are covering in a “no-costs” loan refi. Recurring costs include interest on the old loan (if it’s a refi), interest on the new loan, taxes, and insurance. Another reason that brokers do not count these items as closing costs is because a homeowner would be responsible for these costs regardless of whether or not they refinanced. Real estate agents and escrow officers, however, tend to lump recurring and non-recurring closing costs together. The real estate industry has justifiably gotten a black eye for some of its practices in that some parties, lenders in particular, seem to believe that if they can come up with a new name for a fee they should be entitled to collect it. This seems to have emboldened politicians and bureaucrats to follow suit. The single most important thing to understand about closing costs is that lenders only control lender-related fees. Lenders have no control over title-related fees, government-related fees or insurance-related fees.

When you are comparing the fees charged to obtain loans from various lenders, compare only the fees that the lender controls. These fees are often called “garbage fees” because they are the means by which many lenders increase revenues, especially when they offer a comparatively low interest rate.

Closing costs on the Good Faith Estimate or Mortgage Loan Disclosure Statement break down into four general 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 taxes and insurance bills.

NEXT ISSUE: FURTHER DETAILS AND DESCRIPTIONS OF THE AFORE-MENTIONED BIG FOUR

NO SUCH THING AS A FREE MEAL—NOT!

We’ve all heard there’s no such thing as a free lunch BUT THERE IS A FREE DINNER—send me a referral and upon the deal closing escrow, I’ll send you a gift certificate for \$125 to the restaurant of your choice.

WHO OR WHAT IS THAT?

A few readers have e-mailed asking who or what is that thing that appears at the end of your newsletters. The character depicted is a face-on view of Morty, “the Mortgage Man”. For those of you who have never been to my web site www.MortgageStraightTalk.com, he’s the beloved iconic talking head and host of my web site. He, also, appears in profile, at the top of each newsletter (mouth closed) and on fax cover sheets (mouth opened).

