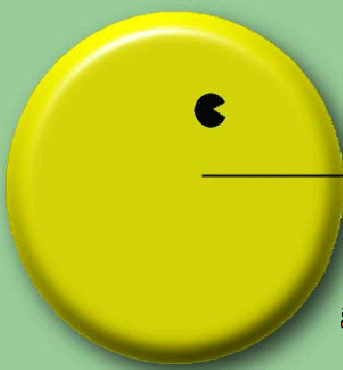


MortgageStraightTalk.com

Mid Spring 2005

Rod@

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**Happy
Cinco
De Mayo!**



Since this issue's topic is a continuation of Closing Costs I wanted to minimize the time between the two, hence this one's earlier than usual. Also, because business sloughs off in April I have a little more time than usual to devote to the newsletter.

RECAP

To recap where I left off in our last newsletter, Loan Fees, Closing Costs, and Settlement Fees are used indiscriminately by brokers and borrowers alike, but there is a difference. **Lender Fees** are the costs of getting a mortgage; **Title Fees**, the charges for establishing and transferring ownership; **Pre-Paid Costs** are not fees, but charges due at closing (e.g., interest, and insurance); **Impound/Escrow Accounts** are, again, not fees, but money deposited into an account for future taxes and insurance bills. Thus, **Closing costs include Lender Fees, Title Fees and Government Fees** (state, county or city recordation) whereas **Settlement Fees comprise Closing Costs PLUS Prepaid Costs and Impound/Escrow Accounts.**

LENDER FEES

Today's discussion will focus solely on Lender Fees. Depending on the lender and loan particulars

the following Lender Fees may or may not be charged by various lenders: origination points, discount points, administration, underwriting, document prep, application, appraisal, lender's inspection, credit report, processing, courier, flood certificate, survey, commitment, PMI application, tax service, and warehouse and wire transfer.

As a mortgage broker, I have minimal control over the foregoing as they're not being paid to me or my brokerage, except for the processing fee, origination points (if any) and the credit report (which I provide gratis). Fortunately, one is not going to see all of these fees on one's Good Faith Estimate (GFE) or Settlement Statement, but one can minimally expect to see appraisal, underwriting, processing, title, escrow, and recording fees in the range of \$3000-\$3500.

Note: The Settlement Statement is also known as a "HUD-1".

LENDER FEE DESCRIPTIONS

Loan Origination Points or Mortgage Broker Fee:

About 70% of loans are originated through mortgage brokers. Wholesale lenders offer lower costs/rates to mortgage brokers than you can obtain directly, so you are not paying "extra" by going through a mortgage broker. Often you will get a lower interest rate and save time by having a broker shop for you. Many low-rate lenders are wholesale only and do not have retail divisions for the public. The loan origination fee is measured in "points". One point is equal to one percent of the mortgage loan.

Costs

Discount Points: A discount point is an one time charge by the lender to buy down the interest rate of your loan. If you are willing to pay one or two percent of the loan amount you can buy the interest rate down a half percent or so.



This was the fee charged by those companies. Nowadays, lenders draw their own documents. This fee is charged on almost all loans and is usually in the neighborhood of \$125-\$150.

Underwriting Fee: This fee is to insure that the loan meets governmental guidelines, Secondary Market guidelines and insure loan commitment. Most lenders will not lend funds unless they are sure that the loan can be sole in the Secondary market and/or meets their Portfolio Guidelines. Underwriters verify that your supporting documentation corroborates the information given on your loan application, i.e., that your appraisal is consistent with comparables, or that your liabilities are consistent with your income level, etc.

Administration Fee: is another name for Underwriting Fee. It may include charges for underwriting, document preparation, or both. When an admin fee is charged, there should only be one of either (the Underwriting or Document Preparation) charged in addition to the Administration Fee, or there should be no other fees charged for underwriting or document preparation. If an Administration Fee is charged, you will probably find there is no Underwriting Fee, though, not always.

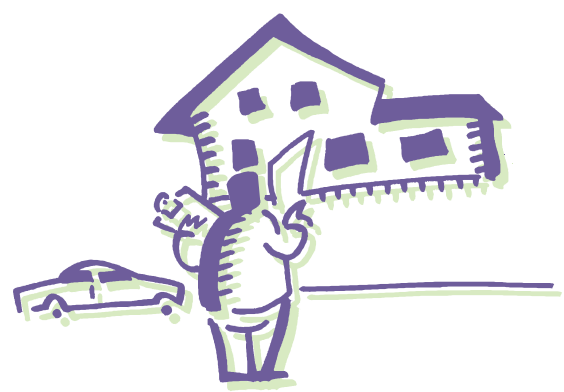


Application Fee: covers the initial cost of processing your loan request. Application fees are largely charged because of consumer comparison shopping. Costs associated with your loan are incurred from the minute your loan request is started. Charging application fees covers these fees in the event that a comparison shopping buyer does not close the loan with the lender. Often, the application fee is credited towards closing costs if you close the loan with the lender. If you do not close with the lender, the application fee is not refunded.

Appraisal Fee: pays for an independent appraisal of the home you wish to purchase or refinance. The lender requires this opinion or estimate of the market value of the house to ensure that the house is worth the purchase price and to establish a Loan to Value (LTV).

Document Preparation Fee: Once underwriting has approved your loan, the legal and miscellaneous documents required at closing must be prepared. These documents include the mortgage note, deed of trust, Truth in Lending forms, and escrow instructions. Before the computer made it fairly easy for lenders to draw their own loan documents, they used to hire specialized document preparation firms for this function.

Appraisal Review Fee: Even though you will probably not see this fee on your GFE or Mortgage Loan Disclosure Statement (MLDS) it is charged occasionally. Some lenders routinely review appraisal as a quality control procedure, particularly on higher valued properties or in areas that have seen rapid price appreciation. This fee is in the neighborhood of \$150.



Lender's Inspection Fee: If the appraisal uncovers anything that needs to be repaired or fixed (the roof is the most commonly required repair) or if, during the appraisal, something is currently being repaired or completed (i.e., a pool), then an inspection is usually required by the lender.



Courier Fee: Lenders use couriers to deliver documents. Some lenders will list this fee individually or include it in the administration fee or processing fee.

Credit Report Fee: Lenders require a credit report. Your credit history is a part of the application documentation. I do not charge clients for one and routinely provide borrowers with a copy so they can see if there are any inaccuracies. As many as 70% contain errors, although usually minor in nature, but there are other times when judgements, collections, + charge-offs were paid but the credit report does not show them as satisfied.

Processing Fee: This fee covers the cost of packaging, + gathering the loan information necessary to submit your loan application to the lender. This includes employment and depository information (w-2s, bank statements, verifications, etc.), ordering credit reports, appraisals and surveys (if required) and other necessary documentation (divorce decrees, bankruptcy filing and discharge, etc.); whatever supporting documentation and information is required by the lender's underwriting department to create the true picture that supports your loan application. A broker must submit all this paperwork according to the lender's requirements.



Flood Certification Fee: Federal law requires flood insurance if the property is located in a flood zone. Normally, an independent company is used to research the FEMA maps to determine if the home lies in a flood zone. This one-time fee is for the life of the loan, as the FEMA maps are checked annually to determine if your property has moved into or out of a flood zone. If your property is reclassified at any time during the life of the loan, the lender will notify you whether or not you should drop or obtain flood insurance for your property.

Survey Fee: States differ in whether or not they require a survey of the home's property. The survey determines whether the property associated with the home is within property lines and that the property lines have not been crossed by other structures.

Commitment Fee/Lender Rate Lock: Most lenders charge a fee for a rate lock that extends beyond 60 days. Fees are charged against shorter term locks as well e.g., 15, 30 & 45-day locks, as well. The rule is the longer the lock, the higher the fee. The fees are usually a fraction of a point (1%) and are deducted from a broker's rebate (the amount the broker receives from the lender for placing the loan with them).

OTHER LENDER FEES

This category can vary from lender to lender and cannot be associated directly with the cost of the loan. These fees cover costs of the lenders and are used to offset the fixed cost of loan origination.



PMI Application Fee: If your down payment is less than 20% and are not incurring a 2nd mortgage, you will be required to have Private Mortgage Insurance (PMI). When processing your loan, two "loan packets"

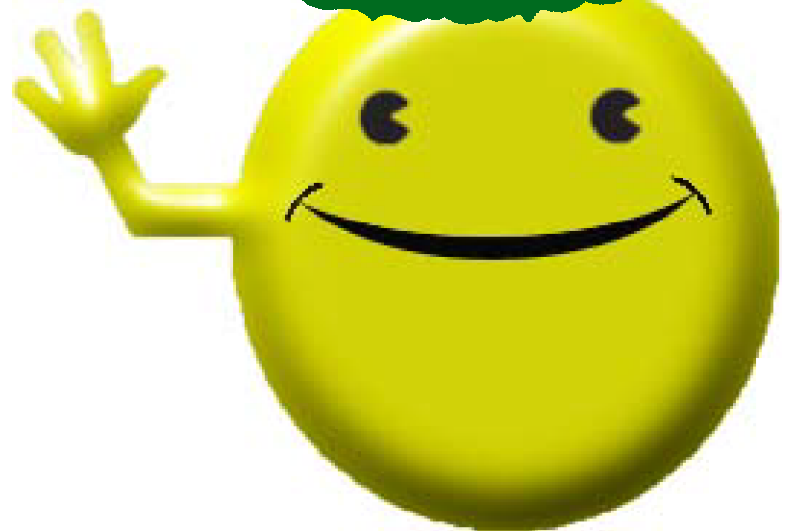


HELP ME TO HELP YOU

Next month, I'm instituting a new monthly feature called Ask Morty. Recipients of the newsletter are invited to ask real estate finance questions of Morty and they will be answered in the very next issue for the benefit of all. The questions may be forwarded via email, snail mail or fax. Our fax # is on the front of every issue and Morty's email address is...

Morty@MortgageStraightTalk.com

NEXT ISSUE: THE CONCLUSION OF THE THREE-PART SERIES ON CLOSING COSTS AND SETTLEMENT FEES—TITLE FEES, PRE-PAID COSTS AND IMPOUND/ESCROW ACCOUNTS



need to be prepared, one for the lender's underwriter and one for the PMI underwriter. You may be charged a fee for this additional processing. Most buyers/borrowers prefer to have a 2nd mortgage over paying for PMI because with the latter, the costs are not tax-deductible.

Tax Service Fee: covers the service that a company provides to verify that the property tax payment sent to the assessor's office was credited to the correct parcel. It's immaterial whether you pay the property tax directly or the lender pays it from an escrow account; on the front of every single tax bill from every single assessor's office in the nation is the following statement: Tax Collector Not Responsible if paid on wrong parcel. The only way to know if a clerical error has occurred (short of tax foreclosure) is if there is a service that checked for payment. The one time fee is for the life of the loan.

Warehousing Fee: Some lenders have a warehouse line of credit in order to fund loans at closing time. This is more common in specialty lending.

Wire Transfer Fee: Mortgage lenders generally wire the funds to the escrow company handling the loan closing. Funds are wired through the Federal Reserve System and go through commercial banks that are members of the Federal Reserve Bank. Usually banks charge mortgage lenders a fee for the wire transfer service in the range of \$50 to \$75.

