



19729 Executive Park Circle | Germantown, MD 20874 | Toll Free: 1-800-757-9704
www.consumersadvantagemortgage.com

Understanding Lender Fees

When you purchase or refinance your home, you will have to pay settlements fees. These fees are broken down into two types of fees; closing costs, or fees associated with the loan, pre-paid items which include interim interest and tax and insurance escrows.

The fees charged by your lender are just a portion of the total closing costs, but if you don't watch out they can add up quickly. Let take a look at which lender fees are considered standard, which are not standard, and which are "negotiable".

First, are standard fees, or fees that appear on almost every loan:

Appraisal Fee (\$250-\$400+): Nine times out of ten the underwriter will require an appraisal to determine the value of a home. With the increased "intelligence" of automated underwriting and automated valuations, we see more transactions where appraisals are not required and I think this is the growing trend with the increased relevance of electronic property databases.

The price depends on the type of appraisal required and the value of the home (higher home value = larger house = more work = higher priced appraisal).

Underwriting fees (\$250-\$595): As it implies this is the fee allocated to having your loan reviewed by an underwriter. Some banks call this a commitment fee, which is traditionally the name given to a "junk" fee.

Credit Report (\$10-\$35): You should expect a charge for your credit report. Often the charge for a couple is twice the cost of a single individual, and for obvious reasons.

Flood Certification (\$15-\$30): This is the cost of the automated service that tells the lender if the subject property is located in a flood plain or not. If it is, it 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.

Understanding Lender Fees

Processing Fee (\$250-\$595): Similar to the underwriting fee, this is the cost of processing your loan.

Next we have Non-Standard Fees, which are charged in conjunction with some types of loans, or shouldn't be charged at all.

I want to address a term that you might hear and that is "junk fees". These usually refer to fees charged by lenders that are frivolous, or pure profit. The challenge in trying to explain this to the layperson is that we do not want to indict a lender just because of a term that they use, but we just want to make you aware of all of the different types of fees out there. The key is you should not see a fee listed in EVERY blank of the lenders fees on the Good Faith Estimate, as this would indicate an abundance of fees. With that, here are some additional fees you might see on your Good Faith Estimate:

Origination Fee (1% of loan amount): This 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 for this. Lenders will be upset if we say this is negotiable, but the reality is that everything is negotiable. If you can find someone to do your loan and not charge this, there is a good chance your rate will be higher so they can make the money elsewhere (the bank pays higher commissions when loans are sold at higher rates). The downside 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.

Commitment Fee (\$200 – 1% +): This is often a junk fee, especially if a processing fee and an underwriting fee are charged. I know of one reputable lender that uses this word synonymously with the underwriting fee. You should always ask 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:

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 out.
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.

Understanding Lender Fees

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 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.

Discount points (1% of loan amount): You can pay a discount point to reduce your interest rate and every point that you pay will reduce your interest rate by approximately 1/4%. It is not uncommon with some sub prime lenders to see fees listed as discount points that had no effect on reducing the rate however; in this case it would be pure profit to the lender.

Loan Lock Fees (\$any): This is a pretty bogus fee. There is not need to pay a fee to lock your loan other than an application fee.

Broker Fee (\$any): Broker Fees are often charged by brokers to arrange for mortgage financing. The idea is that if you are using a broker, they should be looking out for your best interest and would charge you fees up front to find you a "less than market rate". If a broker fee is charged, an origination fee would normally not need to be charged

Some Fees are Paid Up Front, but beware of how much money you spend with your lender in advance. It is common for a lender to collect some or part of the following fees up front:

- Application Fee
- Appraisal Fee
- Credit Report Fee

Now that you are armed with this information, you will be a more educated mortgage customer and should not overpay for your next mortgage.

If you would like a personal consultation from me or a member of my staff, please feel free to contact me at 1-800-757-9704 or info@atozlender.com.

Anthony Kirlew
Mortgage Loan Consultant
Founder, Consumers Advantage Mortgage
www.ConsumersAdvantageMortgage.com
Toll Free: 1-800-757-9704
info@atozlender.com