

When comparing mortgage rates, remember fees



MORTGAGE SHOPPING
DAVID C. MULLY

For the purchase of an existing home:

Everybody wants to know about interest rates and which lender has the lowest rate. But that's only part of the mortgage equation. What about the closing cost? What do they all mean? And why do you have to pay them?

Let's consider all these fees called closing costs. First of all, you need to understand the difference between third party fees and so-called "lender fees." Third party fees are fees the lender charges you while the lender, in turn, pays the third party with his money for services rendered. For instance, an appraisal fee, survey fee, credit report fee and closing fee are some examples of

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these fees. The lender is typically not making a profit on these fees. This is important to remember because popular opinion may cause you to believe that closing costs are just for the lender to make extra profit. The mortgage business is so competitive that any type of pure fee income has become very thin, at best.

That brings me to my next point. Exactly what fees are considered fee income for the lender? Fees such as document preparation fees, underwriting fees, processing fees and, in some cases, a tax service fee, may be used for extra income. This is not

etched in stone. These fees can be necessary fees for some lenders. Be sure to ask for an explanation of what the money being collected will be used for.

You may have noticed that I have not mentioned pre-paid costs which include interest, property taxes and homeowner insurance. I will address this type of cost in a future column.

For the purchase of a new construction home:

While I am on the topic of closing costs, I would like to point out and clarify the requirement for title insurance cost for a new

construction home.

A title insurance policy is most costly for a new construction home because the home has never had a title policy, whereas an existing home will have had a policy already in effect. Hence, the cost to update the title work is less expensive than the cost of initiating a brand new policy. Therefore, on a new home, an owner's policy and a lender's policy must be simultaneously generated from scratch. Thus, the reason for the higher expense.

To illustrate the difference, we'll consider a \$160,000 new mortgage. The title insurance cost for this would be \$695. But on an existing home, where a policy has already been in effect, the cost would be much less at \$278. The difference of \$417 is a lot. For this reason, when shopping for a new mortgage, you should specify to the lender that the mortgage is for a new home so you get accurate closing cost estimates. The amount of title insurance is usually based on the new mortgage amount. Most

lenders use the same chart to quote the fee so it should not differ much from one lender to the next.

For the refinancing of your current home:

When refinancing, closing cost can be a little different. In fact you may not have to pay any at all. First, the amount of the closing cost can depend on several factors, including the length of time since you first obtained your mortgage. Next, consider whether or not you are using the same lender who did your first mortgage. If so, the cost may be lower. The fee for a survey can, in most instances, be waived if you still have your original copy of the survey. As long as you have not made any structural changes to the home, the cost will usually be waived.

Title insurance cost discussed above can also vary depending on whether you provide your original policy and if the lender takes the time to obtain credit on your behalf. The main thing

to remember is that there are ways to save money so don't be afraid to ask your loan officer for ideas of how to cut costs on your mortgage.

Editor's note: Dave Mully is offering a new free mortgage pre-qualification service for all Observer & Eccentric readers. Call Mully at 1-800-405-3051 and mention you read this column to receive a free pre-qualification.

Dave Mully has been writing his weekly "Mortgage Shopping" column for the Observer & Eccentric Newspapers since June 1995. He has been directly involved with residential mortgage lending in the Detroit area since 1988 and is currently employed locally as a senior mortgage loan officer. Mully can be reached at 1-800-405-3051 or fax him at 810-380-0603. You can access Mully's previous columns on line at <http://econline.com-emory1/mully/>

Electric appliances gentler

The ability of electricity to power appliances that make homes more convenient and more satisfying seems limitless. Perhaps surprisingly, in becoming more user friendly, a number of emerging electric appliances are also able to use energy and natural resources more efficiently.

These appliances give you more value for your electricity dollar. They're also helping your home reduce its impact on the environment, according to the Edison Electric Institute, the national association of electric companies.

Here's a brief look at some of these advanced electric technologies:

- Microwave clothes dryers will soon be available. These will dry clothes in the time it takes to wash them. They'll cause little shrinkage, fewer wrinkles, and you'll be able to dry your woools. They help the environment by using 20 percent less energy to do so.

- Home automation systems conveniently control temperature settings, security, lights, and appliances. This helps you use energy more efficiently too.

- Compact fluorescent light bulbs use up to 75 percent less electricity than

incandescent bulbs while offering the same light levels.

- Super-efficient refrigerators now use 30 percent

less energy than even today's high-efficiency models.

- Outdoors, advanced electric barbecue grills and

cordless lawn mowers reduce pollution.

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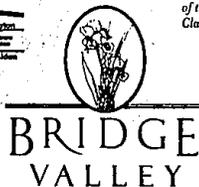
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