

Confusion Leads to Higher Closing Costs

Monday, June 02, 2008

<http://originatortimes.com/content/templates/standard.aspx?articleid=3196&zoneid=5>

WASHINGTON, D.C. - Many American consumers overpay by thousands of dollars in total closing costs when they purchase their homes, according to a new nationwide report from the Urban Institute. The study found that there are significant and unsupported variations in loan charges, title fees and other closing costs charged to homebuyers, and that minority borrowers pay hundreds of dollars more in total loan origination fees than do non-minority homebuyers.

In ***A Study of Closing Costs for FHA Mortgages***, noted economist Dr. Susan Woodward analyzed more than 7,500 mortgages originated in May and June of 2001, a period of relative interest rate stability. The Urban Institute's study found significant disparities in closing costs even when it compared borrowers with identical credit scores, loan terms and mortgage amounts. In addition, variations appeared to be based on education level, geography, race and ethnicity. Even after accounting for these factors, there remain very substantial variations in what consumers pay at settlement.

"This report demonstrates once and for all that the process consumers endure when they buy their homes is entirely too confusing," said HUD Deputy Secretary Roy A. Bernardi. "Clearly, we need to open the window and allow consumers to understand the fine print and shop more effectively for the largest purchase of their lives."

HUD is currently proposing to improve disclosure of the loan terms and closing costs consumers pay when they buy or refinance their home. For the first time ever, HUD is proposing that all mortgage lenders and brokers provide consumers with a standard **Good Faith Estimate**. By more openly disclosing the key elements of the loan and by controlling "fee creep" at closing, the Department seeks to provide consumers with enough information to allow them to shop for the lowest cost loan. In addition, HUD's proposed Good Faith Estimate will promote comparison shopping and market competition by clearly articulating to borrowers their total estimated settlement charges. Ultimately, HUD's own economic analysis finds that by offering consumers clearer, more certain cost estimates, the average borrower will save approximately \$700.

Key findings of the report include:

- Total loan fees can vary by thousands of dollars from borrower to borrower even for the same loan amount.
- Loan charges and title fees vary considerably from state to state even for similar loans. Even in the same state, disparities in title costs among identical borrowers can be more than \$1,000.
- On average, borrowers see no reduction in out-of-pocket fees when they agree to higher interest rates. Ideally, consumers ought to receive a dollar-for-dollar credit for paying a so-called "yield spread premium" that results from agreeing to a higher interest rate loan. In fact, many borrowers see no reduction at all and even pay more in total loan fees.
- African-American families pay an average of \$415 more in total loan origination fees than non-minorities.
- Hispanic borrowers pay an average of \$365 more in total loan origination fees than non-minorities.
- Consumers obtaining loans for which comparison shopping is easiest, so called "no-cost loans," enjoyed an average cost savings of \$1,200.

Brian Montgomery, HUD Assistant Secretary for Housing and Federal Housing Commissioner, said, "The core problem is that too many Americans sign a mountain of documents they don't understand and pay thousands of dollars for services that they've probably never heard of. This report proves that the more informed you are, the less you pay. Our common goal should be to increase competition and transparency, and to help take the mystery out of buying a home." Dr. Woodward examined data from a national sample of 7,560 FHA-insured, 30-year fixed-rate home purchase loans. Data were collected on how much borrowers paid for lender or broker services, title services and real estate agent services. The data were then linked to information on borrower and loan characteristics including loan amounts, interest rates, credit history, income, borrowers' race and ethnicity and the racial composition and educational attainment in the borrower's neighborhoods.

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