

Have lawyer guide you through the multiple meanings of fees

Home buyers are often hesitant to ask questions about the many fees involved in purchasing a home, and that is why hiring an experienced attorney is so important, according to Peter J. Birnbaum, president and CEO, Attorneys' Title Guaranty Fund, Inc. (ATG), a company that works to educate the public about the value provided by an attorney experienced in residential real estate.

The fees for buyers typically amount to a small percentage of the total purchase price, Birnbaum says. "Nonetheless, on a \$150,000 house, they can be anywhere from \$1,500 to \$2,500," he adds.

These fees are in addition to other amounts buyers are typically required to pay at closing, such as escrows for real estate taxes and homeowners insurance, recording fees, and in some areas, municipal transfer taxes.

By law, lenders cannot charge a fee for services not performed, nor can they mark up a fee where another service provider actually performed the work.

"I would advise any buyer to obtain at least three Good Faith Estimates from lenders, and then ask a real estate attorney to explain the fees and compare the loan packages," he states. John O'Brien, chairman of the Illinois Real Estate Lawyers Association (IRELA), agrees, stating that "since the attorney's primary responsibility is to help the home buyer, it stands to reason that he or she is the one person who can be trusted to help the client select the best loan."

"A good lawyer will put all the fees in writing for review by his client so that the transition at the closing table can proceed smoothly," O'Brien says.

The "closing costs" or fees on a form usually include the following:

Processing fees. Many lenders add "processing fees" to the cost of obtaining a mortgage loan. These fees have a variety of names — such as commitment fees, processing fees, and "doc prep" fees — but they are often simply add-ons to the cost of financing, Birnbaum and O'Brien emphasize the importance of shopping around and obtaining written Good Faith Estimates from two to three lenders. These Good Faith Estimates are written estimates of the

fees associated with obtaining a loan and will allow purchasers and their attorneys to make an informed decision about a lender's fees.

Discount points. These are sometimes paid in order to lower the interest rate on the loan. Typically, the lower the rate, the higher the points. One point is equal to one percent of the loan; for example, one point on a \$100,000 loan is \$1,000. If you desire a lower interest rate, you may be able to "buy down" the loan and pay more points up front to secure a lower interest rate over the life of the loan. Conversely, if you are short on up front cash, you may qualify for a loan with no points but a higher rate. Typically, in periods of declining or low interest rates as we have experienced in recent years, points are rarely paid in connection with residential loans. Your lawyer can help you negotiate this matter with your lender.

Home inspection fees. A careful assessment of the home by a professional home inspector can save time and money. Costly technical repairs can be avoided or at least identified. Your attorney will advise you to have this service performed before signing the offer to purchase or during the inspection period contained in the offer to purchase. Most inspections take two to three hours and can cost from \$200 to \$400, depending on the home being inspected. "Your lawyer may be able to help shave off a few dollars, but this is one area where you do not want to skimp," says Birnbaum.

Real estate broker fees. If you employ the services of a buyer's broker, you will pay a fee to that person, based on the selling price of the home. Make sure the broker clarifies the fee arrangements in advance. If you already have your attorney negotiating the best possible price and terms for you, you may not really require the services of a buyer's broker, according to Birnbaum.

Attorney's fees. Considering all that an attorney can provide in the way of service and financial savings, the attorney's fees "are extremely reasonable," says Birnbaum, noting that they typically range from \$400 to \$1,500 depending on the extent of the services provided and the attorney's experience.

Private mortgage insurance. If

your down payment is less than 20 percent of the purchase price, your lender will require that you purchase private mortgage insurance (PMI). When the equity in your home exceeds 20 percent, you are no longer required to pay private mortgage insurance, and you should contact your lender to remove the charge.

Application fee. Lenders typically charge an up front Application Fee to borrowers. This fee is usually around \$300 and includes the cost of obtain-

ing an appraisal and running a credit report. Borrowers need to make sure they are not paying fees for the credit report and appraisal as well as a separate application fee. Some lenders will defer this fee until closing.

Title Insurance. Title Insurance protects against the loss of your home in the event there are title defects or ownership disputes. There are two policies — an owner's policy and a lender's policy. The seller pays for the owner's policy, which assures the new owners that

the property is free and clear of title defects and lists any "encumbrances." The new owner (the buyer) pays for the lender's policy, which protects the lender against loss by insuring that the lender has the "first lien" against the property in the event of a dispute. The cost of the lender's policy is nominal; however, the cost of the owner's policy is based on the value of the home and can cost several hundred dollars. Your attorney can explain the terms.

With the exception of some of the

loan fees, such as for a credit report and property appraisal, "settlement fees" are actually paid at the closing, the time when you take ownership of your new home.

For more information about buying a home, contact ATG at (800) 252-0402 or visit www.atgf.com, or IRELA at (847) 593-5750 or www.reallaw.org.