



The Basics

How to compare closing costs on mortgages

To make a smart choice on a home mortgage, you need to know which fees to pay attention to and which costs to ignore until later.

By Bankrate.com

It's worth taking the time to contrast loan offers. A Bankrate.com survey of online mortgage lenders finds that their estimated fees vary widely. Some lenders are more thorough than others when they estimate the fees and taxes involved in a transaction, making it confusing to comparison-shop.

There are five kinds of closing costs:

- Fees that the broker or lender charges
- Fees that third parties control
- Taxes
- Title insurance
- Prepaid items

When you compare brokers and lenders, the first two types of costs are the ones to pay attention to. Fortunately, those are the costs that lenders are most likely to estimate correctly. On the other items -- taxes, title insurance and prepaid items -- the online lenders in Bankrate's survey are inconsistent, often incomplete and frequently inaccurate.

You can't blame the lenders, really. Estimating closing costs nationwide, based on information that customers provide online, is like driving a 1979 AMC Pacer across the country: Breakdowns are inevitable. This is especially true with taxes, which vary by location, and title insurance, where local custom governs who pays for what.

Borrowers first should scrutinize each lender's cost estimate and add up all the fees that the lender directly controls, plus third-party fees associated with getting the loan.

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Lenders are aware that this isn't easy. Even if you get multiple quotes and compare them, "it's still very difficult to go through and say, 'What am I really paying? What do I have to pay and what do I not have to pay?'" says Rob Snow, vice president of retail lending for E-Trade.

Understanding good-faith estimates

When you apply for a mortgage, the lender is required to give you a standard form called the good-faith estimate of closing costs, the operative word being "estimate." What an online lender presents to you onscreen isn't officially a good-faith estimate, but it should be close. The information presented there is what Bankrate compiled in the fee survey.

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"What you see on the screen is in a sense a summary of the costs, but not in the detailed format of a good-faith estimate," Snow says. "I hope it wouldn't change at all in terms of the bottom-line number."

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It's a similar story at rival Amerisave, where Dave Herpers, director of consumer affairs, says the technology that the lender deploys to display detailed closing costs online is identical to that used to prepare good-faith estimates. "Assuming that nothing changes from what you searched on the Web site to your application, the fees would be identical," Herpers says.

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The good-faith estimate is divided into sections of similar fees, each denoted by a range of numbers: the 800s, 900s, 1000s, 1100s, 1200s and 1300s. For comparison-shopping, the most important fees are the ones listed in the 800s. Most of these items are controlled by the lender or broker, so the estimates should be accurate. A few of the items in the 800 series are charged by third parties, and the lender shouldn't be far off in those estimates.

The lender or broker has direct control over origination and discount points and fees (801 and 802) and administrative, underwriting, processing, funding, document prep, wire transfer and other fees (810 and higher).

Third-party fees in the 800s include the appraisal, credit report, inspection, mortgage-insurance application, assumption, tax service and flood certification. These fees are supposed to be passed along to you without markup. Some national mortgage lenders own subsidiaries that perform these functions, so they have a good handle on what the costs will be. You should expect smaller lenders and brokers to estimate these fees fairly accurately, even though they don't own subsidiaries that offer the services.

Fees in the 1300 series -- for surveys and pest inspections -- should be easy for lenders to estimate accurately, too.

The 900s and 1000s cover prepaid items -- mortgage, hazard and flood insurance premiums, mortgage interest and taxes that must be paid up front or deposited in an escrow account. The 1100s comprise title charges: title insurance premiums, settlement or escrow fees, attorney and notary fees.

Items in the 1200 series consist of government charges such as city and county tax stamps and recording fees.

All the charges from the 900 series to the 1200 series are difficult to estimate. Some of the prepaid amounts vary depending on the date of closing: You would have to prepay a full month's interest if you closed on the first of the month, but not if you closed on the last day of the month. And how is the lender supposed to guess the

cost of homeowners insurance?

"It's certainly a challenge, as a lender, to stay on top of all that and a challenge to explain it to borrowers as well," Snow says.

Tough costs to call

Then there are taxes and title insurance. Online lenders hardly ever get them right. Take, for example, Connecticut. Bankrate queried online lenders about borrowing \$180,000 to buy a theoretical \$225,000 house in the 06103 ZIP code in Hartford. According to a title agency consulted by Bankrate, the city and state taxes on such a house would total \$2,250. Title insurance for owners and lenders would total \$825.

None of the 15 lenders got either right.

First, the \$2,250 in taxes: ABN AMRO includes taxes in its OneFee offer, which doesn't break out taxes separately. E-Trade didn't estimate taxes for Connecticut. Bank of America and Countrywide Home Loans estimated government fees of \$70. Wachovia estimated \$1,433. The other lenders made estimates in between.

Next, the \$825 in title insurance. Estimates varied from \$383.50 (IndyMac Bank) to \$1,456 (Wachovia). E-Loan estimated the title insurance at \$826, almost hitting the bull's-eye. Bank of America sailed wide right, too, estimating \$842.85. Countrywide didn't estimate the cost of title insurance for Connecticut or any other state.

"Basically, the title insurance is a third-party fee that we can't guarantee, and typically is paid by the seller," Countrywide spokesman Rick Simon says.

It works that way in some parts of the country, but not in others. There are two kinds of title insurance policies: those that protect the lender and those that protect the buyer. Usually, but not always, the buyer ends up paying for the lender's title insurance. Customs usually vary state by state on who pays for a buyer's title policy - - and in California, it varies within the state. In Southern California (where Countrywide is based), the seller customarily pays for the buyer's title policy, and in Northern California, the buyer usually pays for his or her own policy.

These are merely customs. The buyer and seller are free to negotiate their own deal, regardless of how everyone else in town does it.

Although lenders' estimates of prepaid items, taxes and title insurance vary wildly, the actual costs come closing day won't differ much, no matter which lender you pick.

So you should ignore title insurance and taxes when you compare offers, right? "It's a reasonably fair assessment," Snow says. In most states "there's a little more variability in the title insurance than in the taxes," he says. Since the real estate

agents (not the bankers) usually select the settlement agent and title insurer, you have to lean on the agents to make sure you don't overpay for title insurance.

"If you're comparing lenders, I wouldn't take title and attorney fees into account at all," says Jeff Becker, director of operations for E-Loan. He recommends that you ask the attorney or settlement agent for advice on timing the closing to hold down the cost of prepaid items.

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