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# Alaska REAL ESTATE BY DAVE WINDSOR



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## WHAT'S THE POINT?

**When applying for a home loan,** or even making an inquiry, Consumers need to be aware of how the closing costs are calculated, particularly with regard to so-called “Points”.

What is the point? First and foremost, the “POINT” is simply a word that is synonymous with 1%. Half a point is 0.5%. A quarter point, often the adjustment made by the FED, is 0.25% (a quarter of a percent). You could even describe Realtor Fees in “Points”. A Realtor may charge 6 points to list your property for sale, 5 points, or even less if you can negotiate the fee.

Some Lender points are negotiable, but mostly not. Lenders are generally non-negotiable unless you can demonstrate that an alternative source is quoting you a better deal. If you can produce a written Cost Sheet from one lender showing lower charges for your loan, you may be able to have that matched by your preferred lender. This is rather like some retail outlets who promise to match any competing store for the price of a particular item.

The problem with the Home Loan industry is that there are multiple charges and points involved and many a naïve consumer can be tricked by one lender appearing competitive when they are not.

It is even possible to find a home loan online where your closing costs are “Zero” - - - BUT this is offset by an increased Interest Rate which, more often than not, means you are paying a lot more over time!

**On October 3, 2015** new Federal Regulations came into effect to protect consumers on this very issue. T.R.I.D. - an integration of the Truth in Lending Act (T), the Real Estate Settlement Procedures Act (R), Integrated (I), Disclosure (D).

TRID, more affectionately known as “Know before you Owe” requires a written disclosure of your precise loan terms a full 72 hours ahead of any Closing of a real estate transaction.

In addition, TRID (a result of the Dodd-Frank Act passed by Congress in 2013) requires that you, the consumer, be given a LOAN ESTIMATE at the front end of your

transaction within 3 days of your Loan Application showing their “Good Faith” numbers for ALL charges associated with the Loan. This is designed to prevent Lenders misleading you.

The only remaining window for Consumer manipulation is the initial sales pitch of the Lender when no Loan Estimate has yet been published.

This is where you MUST be very careful in comparing one lender with another.

So what's the point? In a home loan there are typically points connected to the “Origination” of your loan and points connected to the “Program” or “Property Type.”

**Point 1: Origination Fee.** Lenders do not work for free and you will find a consistent “One Point” (1%) charge for originating your loan. I have rarely seen this fee discounted except where the interest rate is increased to offset.

**Point 2: FICO Adjusters.** Now life gets interesting. Under Fan-

nie Mae (FNMA) and Freddie Mac (FHLMC) rules, determined by your Federal Government, further points are charged depending on your credit score.

This does not apply to a 15 year loan, but it does apply to all Conventional Loans above 15 years. If you have excellent credit (740 or higher), and put 20% down on your purchase, you will pay an “adjuster” of half a point. This is utterly non-negotiable and is, in effect, a tax by your Federal Government. Billions of dollars are collected each month through FICO adjusters.

The adjuster table depends on your downpayment and credit score and can go as high as 3.5% (three and a half points). One way or another your lender must collect this from you.

**Think about it** - Calling a lender and asking them “What is your best interest rate today?” is a rather inane question. A rate cannot be quoted until a whole lot of questions are answered regarding your purchase and credit score.

Even then, the rates move daily and there is a complex “Slider” that every lender can play with depending further on when you might “Lock In” the rate quoted, and how much of your own closing costs you can afford.

What you **MUST** know as a Consumer is that a telephone call or internet inquiry **CANNOT** tell you how much a loan will cost you. Only a full application, followed by the TRID Loan Estimate, can tell you precisely

what the Lender is offering. Federal Law is extremely stringent on how Lenders now present this written offer to lend.

FHA and VA loans typically have FICO adjusters too, but these are lender initiated (not Government) depending on risk perceived and, therefore, can vary lender to lender.

Alaska Housing Finance Corporation (AHFC) has no adjusters whatsoever and this can make AHFC highly attractive to borrowers who otherwise would have several points to pay. Consumers need to know that only a handful of select local lenders will even mention AHFC financing options because no Out-of-State lenders, and even some local ones, are not approved to represent AHFC.

**Point 3: Property Type.** So don't go to sleep yet, I haven't finished. Points are also charged based on “Property Type”, and whether you plan to owner-occupy. Anything from part of a point to over four points depending on your individual purchase. Be it condo, single family, duplex, fourplex etc.

**Bait and Switch:** Under the new TRID regulations it is much more difficult for lenders to trick you. However, initial telephone or internet inquiries from the average consumer still leave wiggle room for the old “Bait and Switch” technique.

Beware of fast-talkers who say one thing, then change it on the Loan Estimate once they have you emotionally engaged.

**Conclusion:** Real Estate transactions definitely take longer under TRID. Instead of an average 45 days to close, you should allow 60 days. Particularly when you think you are finally approved (and ‘underwritten’), don't get too excited - You may well be a couple of weeks out from moving into your home.

However, TRID is on your side and is as important as the F.A.A. when you are flying. F.A.A. gets you home safely in the air. TRID will prevent you from the path that others have trod and get you safely home on the ground.

Dave

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