

All GFEs are not Created Equal!

When you start shopping for the best mortgage opportunities, one of the first comparison tools you will encounter is the “GFE” or Good Faith Estimate. This document is required by law under the Real Estate Settlement Procedures Act. In its broadest form, the purpose of this document is to give the consumer an estimate of the settlement costs that will be incurred with a mortgage loan. The GFE must be provided to the consumer within three days of taking a loan application.

When you do compare GFEs, be aware of one very important fact, not all GFEs are created equal. What do we mean? Often what appears to be a very competitive GFE in reality is not. All GFEs have line-by-line codes that correspond to the codes on the final HUD-1 Settlement Statement. As an example, a loan origination fee is a code 801. This allows you to compare apples to apples on the GFE. If something appears on one GFE and not the competitor’s, ask for an explanation. In some cases a lender may not figure taxes correctly and it can appear as a line-to-line variance between GFEs. Everyone pays the same taxes, so again, this should be questioned. Here are the typical items that appear on a GFE:

- Any loan application fees
- The property appraisal fee
- Transfer taxes
- Survey fees
- Points and origination fees
- Attorneys fees paid either by the buyer or seller
- Recording fees
- Document fees
- Transfer taxes
- Condo fees
- All fees associated with title insurance
- Documentary stamp fees on the new note
- Inspection fees
- All prepaid costs such as interest, taxes and insurance
- Mortgage insurance premium

Can fees charged at closing be different than fees disclosed on the GFE? Yes, in a variety of ways. For instance, if you close at the end of the month, you may eliminate or reduce upfront, prepaid interest on the new loan. Also, the seller may agree to pay some closing costs. This will appear on your real estate contract and should be discussed with your real estate agent. Remember, the GFE is an estimate, but can be an effective tool in comparing different lender offerings. A true professional loan consultant will estimate fees as accurately as possible to insure that you have no surprises.

One important point to consider when comparing GFEs and lenders is many of the costs listed on a GFE are not controlled by the lender such as standard taxes, title, recording

fees and insurance costs. Again, if you see a wide variance in these costs you should question the lenders whom you are comparing. Costs that are controlled by the lender can also vary according to the loan type, such as an adjustable rate mortgage or a 30 year fixed rate loan. Other things to consider include prepayment penalties, private mortgage insurance, and the exact product features and how they benefit the borrower. Are you confused yet? Do not worry, that is what your professional loan consultant is for, to guide you through the maze of buying your home. In many cases, your loan consultant will explain the variances between the GFEs and answer any questions you may have during the process.

Wow! There is a lot to compare and think about in the mortgage process. A professional loan consultant will be happy to go through the GFE line by line. It is better to understand all these things up front rather than be surprised at the loan closing! Do not let this information intimidate you. Think of the GFE as a guide to understanding the difference between lenders as well as the cost associated with your mortgage. Good luck and we hope you feel more at ease after reading this article. Remember, the best surprise is no surprise!