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How to get upper hand in negotiating closing costs

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Borrowers lucky enough to secure a mortgage in the current lending environment have a good amount of leverage when negotiating fees with brokers, who are increasingly starved for business.

The problem is, many people have little idea what constitutes normal closing costs for their loans. In fact, relatively few borrowers even know the important factors that determine their mortgage interest rates.

A recent survey, done by the Center for Economic and Entrepreneurial Literacy, a Washington research center, asked 1,000 people in April to choose the four most relevant factors in obtaining a mortgage. Nearly 70 percent did not identify their credit score, which chiefly determines the borrower's loan eligibility and interest rate.

It is little wonder, then, that borrowers often cannot navigate the more complex world of closing costs, which involve paying an array of fees to the loan's originator, appraisers and those who vouch for the legitimacy of the title, among others. "You'll absolutely find that if people don't have the economic education background they need, they'll end up paying more for a mortgage," said Tim Miller, a spokesman for the Center for Economic and Entrepreneurial Literacy.

Another recent study put that notion into dollars and cents. That study, by the Urban Institute, also based in Washington, found that borrowers living in an area full of college-educated homeowners paid about $1,100 less in mortgage fees than those in areas where few people attended college. The study noted racial differences as well: On average, African American borrowers paid $415 more for their loans than white counterparts did, while Latinos paid $365 more.

Among borrowers who work directly with a lender, there are many ways to minimize closing costs. First, mortgage professionals said, it helps to understand which of the more than 20 fees associated with mortgages can be negotiated.

Aside from the lender or broker's commission, sometimes called a processing fee, there are third-party fees for services performed by independent appraisers and title searchers. Typically, the borrower does not hire such parties directly but uses specialists recommended by the lender or mortgage broker. Still, the lender or broker should be able to discuss why a particular service provider was recommended and how competitive the fees are.

Closing costs, which generally total 2 to 5 percent of the purchase price, also include taxes, interest charges and other fees that the loan officer or broker has almost no control over.

Borrowers should watch interest charges closely, though, to be sure that the charge is only for the period between the closing date and the first of the month.

Last, borrowers must pay a settlement company or in some states, like Connecticut and New York, a real estate lawyer. Normally, this would be a flat fee, negotiated in advance, although the fee could rise, depending on the complexity of the closing process.

Borrowers can probably make their lives easier by doing business with members of the Upfront Mortgage Brokers Association. They are brokers who promise to state in advance their fees, as well as most third-party fees, excluding items like interest and escrow expenses.

Jack Guttentag, author of "The Mortgage Encyclopedia," said that borrowers can review all closing costs on the HUD-1 Settlement Statement. "Although borrowers have the right to review the HUD-1 statement one day before closing," Guttentag said, "they must know enough to ask for it, and few do."