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REAL ESTATE

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What Will Your House Really Cost?

Closing Fees Can Be a Real Eye-Opener at Settlement

By Daniela Deane
Washington Post Staff Writer

You finally found a house you like. You and the seller have agreed on a price, even though it was more than you hoped you would have to pay. You have signed a contract and set a settlement date.

So that's the end of your money worries, right?

Wrong.

To make that home yours, you will have to pay thousands of dollars more than the price you negotiated with the seller, usually about 3 to 5 percent of the sales price. That means that a $300,000 house will actually cost $309,000 to $315,000.

The additional money covers all kinds of closing costs, such as insurance payments, fees to the lender, fees to the jurisdiction where the property is located, and some prepaid charges that go into an escrow account. And you are expected to have it all with you on settlement day in the form of a certified check. Sorry, personal checks are not accepted.

A couple of recent real-life examples:

Dale Mattison, an associate broker with Long & Foster Real Estate Inc., recently sold a $1 million property in the District. The settlement charges totaled $36,181, or 3.6 percent, he said, looking at the settlement form. That form, called a HUD-1, was developed by the Housing and Urban Development Department; legally, it is supposed to be given to both the buyer and seller 24 hours before closing. In reality, many times buyers do not see it until they are already sitting at the settlement table.

Kathleen Herbert, a settlement lawyer and general counsel at MBH Settlement Group LC, looking at another HUD-1, said total settlement charges on a $382,000 property that recently changed hands at her Fairfax office came to $8,300, or 2.2 percent. Virginia tends to have the lowest settlement charges, compared with the District and Maryland, largely because of lower state transfer and recordation taxes and lower title insurance rates, settlement lawyers said. "However you want to cut it, you need a lot of money to close," Mattison said. "I've seen settlements delayed so that buyers can beg, borrow and steal the money they need."

And there is not much you can do about it—precious few of these fees are optional.

The Greater Capital Area Association of Realtors, or GCAAR, divides closing costs into five basic categories—loan-related fees, prepaid or escrow items, title charges, recordation and transfer charges, and additional settlement fees—on a closing worksheet widely used by local agents. The agents use the GCAAR worksheet to show buyers the costs they will face at closing.

Loan-Related Fees

One of the largest fees related to getting a mortgage is the loan discount fee, so called points. Each point equals 1 percent the loan amount. On a $300,000 mortgag for example, the fee would be $3,000. Bu ers pay points to reduce their intere rate.

"For many years, it was nece sary to pay points to lower the i terest rate for the purpose qualifying for the loan," sa Keith Gumbinger, a mor gage industry analyst financial publish HSH Associates.

In this peri of low mortga rates, thou few buyers paying points on their loa settlement lawyers say. Ra on 30-year fixed-rate mortg es averaged 5.98 percent w 0.7 points this week, up slig ly from 5.94 percent last we according to secondary mo gage giant Freddie Mac.

Consumers often confu discount points with loan or ination fees, which can be al called points, Gumbinger sa Loan origination fees are a often denominated as a p centage of the loan amou "Even if the broker tells your mortgage has no poi

BY RANDY MAYS FOR THE WASHINGTON POST

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Students Graduate to Condos

By Chuck Green
Special to The Washington Post

When she was a student at George Washington University in 1999, Peri Bombart yearned to put dorm life behind her. "In the dorms, I was always living with three other people and sharing a bedroom. I liked the idea of having my own room," she recalled.

Her father, Steve, crunched some numbers and decided to invest in a two-bedroom condominium in Foggy Bottom, near the school's main campus.

"It was a financial and a lifestyle decision. I calculated what I would spend for one more year in a dorm for Peri and how much I would spend for my younger daughter, Jamie, who also would be going to school there. I figured out what a mortgage would be and that there was probably a little advantage to buying an apartment. It was a no-brainer," Steve Bombart said.

Like Bombart, a number of parents of students attending college in the Washington area have invested in off-campus housing rather than having their children stay in a dorm or rent an apartment.

Bombart, who lives in North Carolina, said he considered renting an apartment for his daughters, but quickly ruled it out. "You might find hidden problems, so it's better to buy a condo. And it's a good investment."

Now that his daughters have finished school and moved on, he said he believes his decision looks even smarter, given the downturn in the stock market and the run-up in Washington area real estate prices in recent years. "I feel a lot better about it now."

While parents such as Bombart may be happy about this type of investment, not everyone likes it. Some residents of communities near local universities, including those in Foggy Bottom, have expressed displeasure in recent years at having students as neighbors, both those who rent on their own and those who live in places their folks own.

For example, a plan to convert the Watergate Hotel into luxury condominiums fell apart earlier this year partly because of stiff resistance among some residents of other buildings in the complex. They argued that the condos would probably be occu-

See STUDENTS, F5, Col. 1

BY BARBARA POLLAK FOR THE WASHINGTON POST

THE NATION'S HOUSING

Kenneth R. Harney

Refinancing Homeowners Cut Back on Cashing Out

When you last refinanced your home mortgage, did you pull out extra money? Did you "cash out"?

If your answer is no, you are part of an unheralded but significant trend among American homeowners: people who are still refinancing their loans to cut monthly payments or shorten their payback terms but not extracting additional cash.

The trend is so pronounced, according to mortgage industry analysts, that refi cash-outs have just hit their lowest level in decades, and perhaps ever. According to mortgage investor Freddie Mac, only 32 percent of all refinancings during the third quarter of this year involved cash-outs of additional money beyond the existing loan balance. That is down from the 60 percent-plus cash-out proportions typical during the height of the refinancing boom in 2001 and and the all-time record of 93 percent set in mid-1989.

Cashing out, by Freddie M definition, involves refinancin existing mortgage and replaci with a new loan that is at leas percent larger. Cash-outs requ sufficient home equity to sup the additional money being withdrawn. They also freque come with a slightly higher ir rate than the lowest available borrower. You pay a slight premium—generally anywhe from one-eighth of a percent point to one-fourth of a point—when you add more d the house than you had earlie

But that has rarely dampe popularity of cash-outs. After you can refinance your house lower your rate while at the s time pulling out an extra

See HARNEY, F7, Col. 1

A Valuable Alternative to the Dorms

STUDENTS, From F1

pied by George Washington students.

"It's not the student's fault, but it's a mix that doesn't work. Students are leading a normal student life in the midst of people who have to go to work every day and live a more regular lifestyle," said Ron Cocome, president of the Foggy Bottom Condominium Association and a former Watergate resident. His organization has been feuding with GW for many years over the issue of where students live.

Whatever the neighborhood dynamics, said T.J. Murphy, an agent with the Coldwell Banker Residential Brokerage office in Georgetown, parents have been reaping sizable gains from their investments in off-campus housing. "We deal regularly with parents who buy apartments for their kids. Parents thought they were just buying housing, and sometimes they make enough money to pay for tuition. The way the market works, after three years, they've usually made a considerable amount of money."

Lawyer Mitchell Fuerst, a tax specialist and partner in the firm of Rodriguez O'Donnell Ross Fuerst Gonzalez & Williams P.C., which has a Washington office, said that for parents such as Bombart, ownership is the way to go.

That is particularly the case when the property is near a college campus.

"If [parents] take property near a university and they do it close enough, the value of the property is going to remain stable, if not grow," Fuerst said. "By owning, you're getting something back for your investment, and you're getting it in a market that is proximate to a university. If it's a good enough university, it's a very good investment because your vacancy rate is almost nonexistent because of the steady influx of students."

If parents title a property in their own names, then let a child who qualifies as a dependent for tax purposes live there rent-free, the Internal Revenue Service treats it as a second residence. That means that within certain limits, mortgage interest and property tax payments would be tax-deductible, said Ron Garzotto, a tax manager with Rome Associates LLP in Chicago. (However, only an owner-occupant of a principal residence is eligible for tax-free capital gain at the time of sale.)

Garzotto said that, theoretically, parents could set up a rental situation between themselves and their dependent or non-dependent child and treat it as an investment property for tax purposes. But that is tricky, he said, particularly presuming the student has a limited income.

"If you want to set up a true rental situation, it seems pretty hard to do because your child is in college. How can he or she pay fair rent?" he said.

And if the parent makes the student a gift of the money to pay the rent, he said, "that's just a circular flow of money from which I don't see a tremendous benefit."

Bringing in a roommate would help, he said. "That way, a parent could legitimately set up, say, half the property as a rental. So they could charge rent for 50 percent of it and write off 50 percent of the interest and 50 percent of the taxes, and depreciate 50 percent of the cost of the property against the rental income. That would shelter the rental payments from the roommate."

Murphy said that profit is not the only motive for parents to purchase an apartment.

"It's also fulfilling a need for housing that they can have at the standard they want. Sometimes parents can look at rentals and they're not very attractive, so they decide that they'll buy a place and fix it up for their kid because they want their kid to have a nice environment. Putting a student in the dorm is very expensive. Or they can rent a place, which is going to benefit the landlord, or they can buy a place and essentially be their own landlord."

Tom Bower, who until recently owned a townhouse in Foggy Bottom, frowns on the idea of students as neighbors. A GW student lived three doors down from him in a unit purchased by her parents.

"Since the weekend generally begins on Thursday night for students, as they return from bars at 2 a.m. or so, they're a little louder than they were before they went. I have nephews in college," Bower said. "They do exactly the same thing, and I remind them they wouldn't be welcome to live next to their uncle. The primary focus of students is on studying, as it should be. When they're done, they need to let off steam. My disturbed sleep doesn't bother the parents of students, because they're sometimes 2,000 or 3,000 miles away."

But no matter how far away he was, Steve Bombart said, he would have been unhappy if his daughters disturbed the neighbors. "If there had been problems—God help us."

At the same time, if there are disturbances in a building or a neighborhood, he does not think it is fair to lay the blame strictly on students. "There's just as good a chance of young people [who are not students] . . . making noise or being drunk as there is among college students."

His daughter Jamie said, "I did not have any complaints on noise. . . . I think students definitely livened up the place. When I first moved in, I was one of the only students. It was nice to see other students there and moving in. There was not such a mellow tone to the place."

She said, "If there were parties, it was usually on the weekends. I also think some of the older folks like having younger people around. It gave the place a face-lift."

Her sister Peri said she thrived on the extra responsibility that came with ownership. "I was more responsible for the apartment as far as paying bills, even though everyone contributed."

Responsibility aside, Burleith resident Guy Gwynne, who owns a townhouse not far from Georgetown University, emphasized that while he did not want to "overstate the situation," he believes that, among some students, ownership can lead to a sense of overconfidence.

"I guess the only generalization I can make is the students in the house their fathers and mothers own can be more cocky than normal students. You can't tell them what to do in their own house. What happens is the son or daughter of the owner, to make the mortgage payments, has to move other people in. But the main person in the house, mainly the offspring of the owner, has the confidence that inspires the others."

Henry Krieger, also a Burleith resident, had no complaints about his former neighbors, three brothers who resided in a rowhouse next door to his that was purchased by their parents in 1992.

"Their parents were determined to have all three go to Georgetown," Krieger said. "I met them. They knew about the student reputation in this neighborhood, which, indeed, is very bad. It's a terrible problem that has been going on for years. But these boys were very good because their parents were very strict about that. They assured me that they would be good neighbors, and to let them know if I had any complaints. But I never did. The children studied very hard and took care of the property."

Emanuele Ostuni, who moved out of that house in 1995, said he and his brothers, the last of whom left after graduating in 2001, understood the importance of maintaining good relations with Krieger.

"We wanted to make sure that there was no bad blood because, after all, we shared a wall and we shared a yard," he said.

In fact, at times, the brothers and Krieger essentially worked as a team.

"We looked after his property sometimes, and [Krieger] looked out for us when we weren't around," Ostuni said. "It was mutually beneficial. It was nice to have something we could call home, and a place where we could bring our personal effects and not have to worry about moving every nine months and storing things in strange places."

Not only that, Ostuni said that his parents, who made a gain of about 10 percent on their investment, looked at the big picture after they bought the property. "When you add up the cost of all those years of combined residence between my brothers and me, including the cost of rent and moving expenses, buying opposed to renting was really the best way to go."

David and Dail Richie of Pennsylvania had flexibility in mind when they purchased a condo efficiency apartment last September for their daughter Julia, a law student at George Washington.

"We used to live in D.C., and can stay at the unit when we visit friends. Given the prices of rentals, we thought it might make sense to look into buying, then renting to her," David Richie said. "She can just walk to school, and we thought it would be a good investment."

Julia Richie said the unit has suited her needs. "Quiet time for studying and privacy is why I wanted to live by myself," she said.

For her, an efficiency was the right size. From an investment standpoint, however, lawyer Fuerst said he favors buying something larger. "If you select roommates carefully enough, your level of damage will go down and you'll create an education environment within the housing," he said. And in many neighborhoods, it is easier to resell larger condos than it is efficiencies.

The only downside real estate agent Murphy sees to buying a larger place is a possible loss of privacy. "Obviously, there's a benefit of privacy," Murphy said. "So there's a benefit to buying an efficiency and not having to share an apartment."

Like Steve Bombart, the Richies also looked to the future when they bought. "We have two younger children. Who's to say whether it might not work out for them to live there at some point in their college career, too?" Dail Richie said.

Perhaps, but Julie Weber, executive director of Housing and Dining Programs at American University, said she believes that, overall, living on campus is more conducive to a productive college career.

"You are surrounded by fellow students, so it's easier to have study groups, and it's easier to get answers to questions you might have on homework," she said. "And you're more accessible to university resources—the library, computing lab, research facilities—all the things that contribute to doing your schoolwork."

Dora Mamodesene of Silver Spring has already seen to it that her daughter has accommodations awaiting her at the University of Maryland, even if her daughter is only 15 now.

"I did the same thing for my older daughter," she said. "Purchasing the property was the only way I could put money away and benefit from things like tax breaks. I guess I bought because I was conservative and didn't want to lose money at the time in high-risk investments. I don't believe in renting. And my daughter can have her independence."