Settlement costs in Maryland should be lower

By James Crockett

Maryland has the highest settlement cost in the United States. Because of the elaborate cost, many potential buyers cannot afford to purchase homes of their choice.

The cost can be attributed to lenders, the local government, the state government and sometimes, the federal government.

Requirements such as, lender inspection, document preparation fee, loan origination fee, and loan discount fee can be eliminated.

As a result, settlement costs would decrease. Last year, when the interest rates dropped from double digit interest rates to single digit rates, many home owners called to determine whether to refinance or not. Lenders, as well as real estate salespersons advised home owners to use the three 2's method.

For instance, if they had a mortgage for at least 2 years, and if the interest rate was at least 2 percent lower than the current rate and they intended to keep the property at least 2 years, home owners are advised to consider refinancing.

However, lenders charged an origination fee, points, appraisal fee, credit report fee, lender inspection fee, and document preparation fee to the home owner.

Although the status of the current mortgage had remained constant throughout the homeowner's mortgage; lenders required home owners to pay fees normally charged to the seller, when the purchaser is actually buying money from the lender.

Of course, conditions such as employment, family structure, economy, and like conditions could affect the purchasing power of the home owner.

The main consideration for the home owner was to lower mortgage payments so that the home owner could narrow the risk of foreclosure and enhance the possibility of home ownership.

Lenders set the interest rates on mortgages. It would be in the best interest of both the lender and purchaser if the purchaser could pay ½ percent to 1 percent higher interest rate for a period to cover the cost of settlement, than to try to pay the cost of settlement, at settlement.

If the settlement cost is $5,000,00, and the purchaser does not have that amount, the lender could set up a separate account for the cost of settlement at an increase of ½ percent to 1 percent in addition to the current interest rate and when that full amount has been paid, the purchaser could elect to continue to pay the increase and have that amount applied directly to the principle balance, or discontinue the increased interest rate at that time.

Points and origination fees are charged to increase the government insured or guaranteed loans to a level of conventional loans. Since the lenders set the interest rates on all loans, there is no need to charge points and origination fees on conventional loans to bring them to a level of other conventional loans.

Lender inspection fees are charged when repairs must be met before settlement can be set. Since the purchaser is going to live in the property, why not have have the selling agent, seller, and the purchaser inspect the required conditions and certify that the conditions have been met and that the purchaser is satisfied.

This would eliminate the lender sending a representative to inspect the property since this is charged to the purchaser each time the representative inspects the property.

Document preparation fees are not permitted under FHA loans because the lender is responsible for preparing the documents to protect investor's interest and if the employee is working for the lender, why charge the employees salary to the purchaser.

Local government and state government charges could be reduced one half the cost charged. Transfer Tax at 2 percent on the sale of a property that cost $50,000 is $1,000 and if the contract requires that this cost be split between the purchaser and the seller, the purchaser must pay $500.00.

In most cases, the seller can afford to pay the cost since the seller is receiving money from the sale. Documentary stamps at $5.50 per thousand on the same priced house is $275.00 with the purchaser paying $137.50.

Again, this charge can be reduced one half the cost charged. Recording a fee that is charged to the buyer for the Deed and the Mortgage and any other documents that require recording must be borne by the purchaser at $4.00 per page and $1.00 per name plus 50 cents for mailing.

This cost can be reduced by one half.

Under Federal charges, VA funding fee of 1 percent on the same property is $500.00 charged to the purchaser, not to guarantee the loan but to offset the budget. Mortgage insurance fees now paid in advance can be added to the mortgage which requires paying interest on the cost of the insurance for the life of the mortgage.

In some cases, this period could be up to 30 years. Funding fee can be eliminated and the mortgage insurance can be reduced to one half.

Recently HUD initiated a policy of charging potential purchasers $150.00 to extend a contract of sale beyond the 45 days agreed upon for approval of financing.

Most buyers want to move into the property the day they sign the contract. Most real estate people want to make settlement on the property the day before the contract is signed. Most sellers want to settle the day after the contract has been executed.

Then why penalize the buyer? Lenders must put into motion appraisals, credit report retrievals, employment verifications, verification of bank accounts, certification of tax information and other information to approve the purchaser and the property.

The time frame can be costly to the purchaser if this information is not submitted to the lender within 45 days. When it can be verified that the delay was not the fault of the purchaser, the $150.00 extension fee should be waived. In fact, the extension fee should be eliminated altogether.

If these and other recommendations are implemented, the cost of settlements in Maryland would be drastically decreased.

With the above reductions, Maryland would be on par with other states and more tenants could become home owners. When states estimate that they will have a surplus of millions of dollars, the banks can afford to reduce the above cost and not lose money.

The banks would receive money which they could put back into the loan portfolio while lowering the risk of loss in the event of foreclosure and the purchaser could expedite the mortgage payout time.

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Minority entrepreneurs: Where to get the money

With the new tax reform era reducing the amount of venture capital available, entrepreneurs will need to maneuver through the maze of funding possibilities with creativity, financial savvy and determination, concludes a special report in **Black Enterprise.**

The elimination of preferential treatment for capital gains will reduce the amount of venture capital available, shifting what's left from risky high-tech concerns to more secure low-tech companies, it has been reported.

One alternative available to black entrepreneurs is an SBA-endorsed minority enterprise small business investment corporation (MESBIC). For each dollar of private MESBIC capital, the SBA can provide up to $4, through either direct loans, loan subsidies or loan guarantees.

The SBA can also give capital directly to MESBICs, which in fiscal 1987 reached $39 million.

In the coming fiscal year, however, the Reagan Administration has proposed slashing MESBIC funding 49 percent, to $20 million.

Another problem facing the MESBICs is the new tax bill, said JoAnne Price, president of the American Association of MESBICs. "We used to be tax-exempt in terms of our bad debt reserve. Now that's taxable."

"That change will squeeze MESBIC profits and reduce the money available for investment," she said.

Even though MESBIC's are generally underfunded, there is "a lot of idle cash" in the industry entrepreneurs are not aware of, Donald Queen, president of New York's Minority Equity Capital Corp., told **Black Enterprise.**

MESBICs are trying to become more visible among investment bankers as well as pinpointing would-be black entrepreneurs, he added.

The key to obtaining assistance from a MESBIC is to demonstrate good management skills, Marvin Beaulieu, president of SCDF Investments of Lafayette, LA, told **Black Enterprise.** Beaulieu noted, however, that unfortunately many minority entrepreneurs view MESBIC's as a last resort.

Finding venture capital in the new tax reform era will be no easy task, but those with imagination and determination will succeed, it was concluded.

The April issue of **Black Enterprise** is available at selected newsstands or by sending $1.95 plus $1.00 postage to the publisher, 130 Fifth Avenue, New York, NY 10011.

Philanthropy Day

The Baltimore Chapter of the National Society of Fundraising Executives will hold their 3rd annual Focus on Philanthrophy Day. The day-long event will be held on April 24, from 8-4:30 at the Pikesville Hilton.

Both keynote addresses and workshops will focus on Philanthropy in Maryland — "State of the Art in the State of Maryland."

An invitation is extended for all those interested in philanthropy, volunteerism, and non-profit sector to join with the local NSFRE at its annual workshop day. Please call Karen Meadow at 466-4400 for more information and details about this exciting day of workshops and meetings.

—Tenants

(Continued from page 27)

the landlord give written permission?

• **Are pets allowed?** Are additional deposits required? Are there any restrictions on the size of the animal?

• **In general:** There are sometimes special circumstances to which a tenant is asked to agree. For example, if the unit is a room in a house, there may be only certain areas for the tenant to use, or certain appliances, etc. Rules about guests or late hours are something specified.

BE SURE TO GET EVERYTHING WHICH CONCERNS YOU IN WRITING IN THE LEASE. AN ETHICAL LANDLORD SHOULD NOT MIND YOUR INSISTENCE ON THIS.

KNOW YOUR TENANT RIGHTS

Rental agreements are generally not permitted by local laws to include: 1) a waiver of the landlord's responsibility for injury caused by his or her actions or actions of employees to other people; 2) a claim that the tenant must pay the landlord's legal fees and court costs in the event of a trial; or 3) a waiver of the tenant's rights to the full application of all local housing codes.

Housing codes which govern apartment rentals are set by local authority—city, county or state. For example, some areas have strict rent control regulations, while others have none at all. Check with your local rental regulatory agency to see what such laws may be in your area. If you need more information, the local legal aid society, citizen housing coalition groups, or similar organizations may be able to help.

THE SECURITY DEPOSIT

The tenant may be required to deposit with the landlord at the time of signing the lease an amount of money which generally varies from a half-month's to two months' rent. In many areas, this "security deposit" must be placed in an escrow account where it may gain interest.

The purpose of such a deposit is stated in writing in the lease or some other agreement. It is usually made to compensate the landlord for unusual property damage or unpaid rent due at the termination of the lease.

Be careful about making any deposit on an apartment unless you have definitely decided to move into the unit. A tenant who does this, but then decides not to occupy the apartment may not be entitled to a refund.

When you vacate an apartment, the landlord usually must either return to you the amount of the security deposit (plus interest, if applicable), or justify in writing keeping all or part of the money.

The security deposit must be returned within a "reasonable" length of time — usually anywhere from 30-45 days — after termination of the lease and the tenant's moving from the apartment.

A landlord usually is required to submit to the ex-tenant an itemized list of all repairs caused during occupancy, noting the amount of security deposit being deducted for damage costs.

The tenant, who should have the right to accompany the landlord on any such inspection tour, may judge what is "normal wear and tear" by comparing the landlord's itemized list with the list of damages prepared at the time of moving in.

If you feel that a security deposit, or any part of it has been wrongly withheld, contact a lawyer, a legal aid society, a rental regulatory agency or the Better Business Bureau.

In come cases, you may then be referred to Small Claims Court, although BBBs in a number of areas offer a free abritration service for setting such claims.

EVICTIONS

Under certain circumstances, a landlord may have the right to require the tenant to move with very little notice. Reasons may include lack of consideration for the rights and privacy of others or non-payment of rent.

A landlord sometimes may be able to place a "seizure" on the tenant's property as security until back rent is paid.

Each eviction case is unique, so if it happens to you or seems about to, be sure to obtain sound legal advice. But, do realize, however, that a landlord may not evict a tenant for reporting housing code violations, for joining or establishing a tenant's "union" or similar organization, or for asserting other tenant rights.

MOVING OUT

Leaving already? Well, don't forget to give the required notice. Be sure to check your lease for any other specified conditions.

For example, if rent is due on a monthly basis, you could be required to send written notice 30 days in advance of vacating the apartment.

Send all correspondence relating to your intention to move to the landlord by certified mail ("return receipt requested"), or deliver it by hand and insist on a receipt. It usually is a good idea to talk with the landlord in person, too.

If you must cancel a lease before its expiration date, perhaps the landlord will accept your security deposit as your total financial obligation. If so, be sure to obtain a signed agreement to this effect from the landlord.

A landlord who asks a tenant to move for any reason generally must follow the same procedure: e.g. 30 days notice. Normally, when a lease is about to expire, neither the landlord nor the tenant must give a reason for serving notice to vacate.

SUBLETTING

If your lease allows subletting, try to find someone to take over by the time you leave. And, remember that when you sublet, you become, in effect the landlord. So, don't forget to check references, and find out about ability to make prompt rent payments.

Keep in mind that when you are subletting an apartment, you are still responsible for the property, including all damages, according to the terms of the lease. You are also responsible for the rent, if the sublessee doesn't pay, you do.

Sometimes, you may not be allowed to sublet, but may be able to terminate your lease prematurely. If you can find a new tenant to take over immediately, in this way, the landlord loses no rent and you are relieved of further responsibility.

Your lease is terminated and a new agreement is signed between the other parties.

A FINAL STEP

When you move from an apartment—no matter whether you have lived there a few months or several years—be sure to settle all accounts. Terminate utility service the day you leave, notify the post office, friends and colleagues of the address change and make any other arrangements to minimize inconvenience to the landlord or the new tenants.

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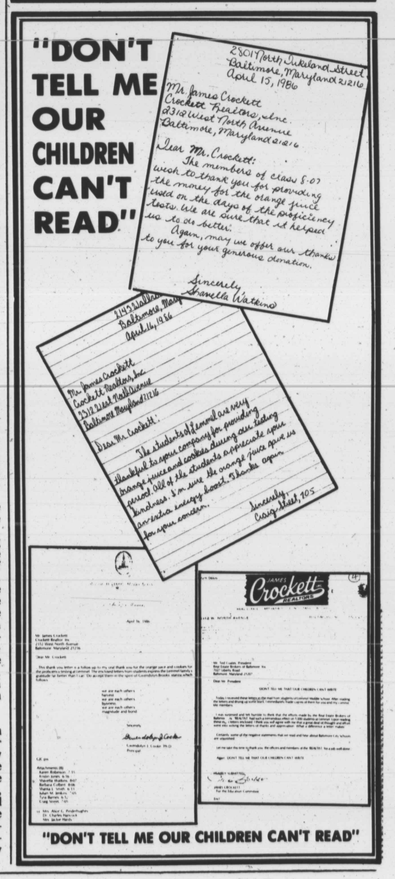

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Gov. Schaefer announces homeowners program in Maryland

ANNAPOLIS — Gov. William Donald Schaefer today announced the opening of the State's 1987 Homeownership Development Program.

Beginning April 13, approximately $31.5 million will be available for 30-year fixed-rate mortgages with a 6.9 percent interest rate for eligible purchasers of newly-constructed or substantially rehabilitated housing.

"This program is an excellent example of the government working together with developers and lenders to help people," said Governor Schaefer.

"Not only does this program help people obtain affordable housing at an extremely low mortgage interest rate, it adds an estimated $67.2 million to Maryland's economy by creating jobs and generating income and real estate tax payments," he added.

To be eligible for a loan through HDP, an individual applicant may earn up to $28,000 a year; a household with two or more people may earn $33,000 a year.

Borrowers may not have owned a home in the last three years; however, this requirement does not apply in certain targeted areas, including Baltimore City, the City of Hagerstown, and Allegany, Caroline, Dorchester, Garrett, Kent, and Somerset counties.

Homes purchased through the program may not cost more than $70,000, except in targeted areas, including the following, where the maximum purchase price is $77,000: Baltimore City, the City of Hagerstown, and Allegany, Caroline, Dorchester, Garrett, Kent, and Somerset counties.

Homes financed through the program may include townhouses and single-family detached or semi-detached homes. Condominiums acceptable to the mortgage insurer and modular units with a state seal for code compliance also may be purchased through the program. The style and size of the home will vary, depending on the builder selected.

To obtain an HDP loan, interested people should visit any housing development in which homes sell in the appropriate price range and consult with the builder or developer. Interested homebuyers should ask the builder or developer to refer them to a participating lender to apply for a mortgage loan.

Participating lenders will review with interested borrowers the eligibility criteria for HDP loans.

Mortgage loans obtained through HDP must be insured by the Federal Housing administration, the Veterans Administration, or the Maryland Housing Fund, DECD's mortgage insurance agency.

The Homeownership Development Program is administered by the Community Development Administration, a division of the Maryland Department of Economic and Community Development. The program is a cooperative effort of CDA, builders and participating lenders to assist moderate-income households in purchasing a home. CDA is the state's housing finance agency.

The program is financed with the proceeds of bonds sold by CDA.

One's boudoir, according to the French, should be a brown study, a room for sulking in. The word comes from the French *bouder*, to sulk.

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