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Simple solutions to fee bloat

Here are a few suggestions to even the playing field between home buyers and realtors, mortgage brokers and title companies.

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NEW YORK (MONEY Magazine) - The real problem in real estate transaction costs is greater than what's happening on Aquila Lane.

Home buyers are at a huge disadvantage when they deal with the realtors, mortgage brokers and title companies they hire. Most folks buy or sell a house only a few times in their life, so they build up little knowledge of how the process is supposed to work or how much it should cost.

Meanwhile, real estate pros have relatively little incentive to treat customers fairly. Sellers often move, and buyers may not seek another house for a decade, which is longer than the career life of the average real estate agent. So unlike, say, a grocer or a hairdresser, agents get little repeat business.

As the real estate boom enters what looks like a new phase of less frenzied growth, there's more need than ever for laws that better align the interests of real estate professionals and their firms with the interests of their customers.

Bundle services

According to John Weicher, director of the Center for Housing and Financial Markets at the nonprofit Hudson Institute and a former HUD official in charge of RESPA regulation, one simple solution would be to allow real estate services to be bundled.

Realtors or mortgage brokers could charge a single fee for everything a client needs to buy a house -- loan, title, the works. Consumers could easily compare fees and rates, pushing lenders to compete on price. Lenders would also pressure title insurers, appraisers and other service providers in the same way that Wal-Mart pressures its suppliers.

"If lenders had to buy their own title insurance, premiums would drop like a rock," says Wharton's Guttentag.

Put teeth in RESPA

Another way to correct the system would be to make lenders stick to their good-faith estimates. HUD officials, who are working on changing the rules of the closing game, argue that this could bring down costs because lenders would have an incentive to offer lower prices, not just lower estimates.

Reform proposals have been floated before, only to be shot down by industry lobbyists. Maybe it's different this time. The Justice Department has brought antitrust allegations against realtors. And perhaps HUD's nascent efforts at reform will make a difference.

A skeptical Allen Fishbein, director of housing and credit policy at the Consumer Federation of America, chooses to reserve judgment.

"We have a long way to go," he says. "Right now the only competition in the real estate business is to see who can get the consumer to pay the most."

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