

All About Closings

Overview

When you sell or purchase a home, closing (also known as "settlement") on a home sale means legally transferring ownership from one party to another. This process can take 30 to 60 days, and culminates in the signing of contracts and passing over the keys from the seller to the buyer.

The Players

A number of different parties are involved in the process of refinancing or transferring ownership of real estate. You can expect to see any or all of them at the closing itself.

Your Real Estate Agent — Acts as an intermediary between you and the seller. Generally assists in helping you purchase property for the lowest possible price and best terms.

Seller — Signs the deed over to the buyer and presents the keys to the home.

Seller's Real Estate Agent — This real estate agent represents the seller (who may not be present at the closing itself). Generally assists in helping the seller get the highest possible price and best terms for the property.

Escrow Officer — An objective third party who processes and disburses funds in accordance to the instructions provided by the seller and buyer. The escrow officer is often a representative from Chicago Title.

Settlement Agent — A representative from Chicago Title, this person is responsible for facilitating the closing by preparing and recording documents.

Lender/Bank — The institution (usually a bank or mortgage company) that lends the money to the buyer. The lender is often called the "mortgagee", while the borrower is referred to as the "mortgagor".

Loan Servicer — The institution that will receive and process your mortgage payments and manage your escrow account. This is often the lending institution, but not always.

The Documents

You will be asked to initial or sign a number of documents during the closing. Among the most important are:

Good Faith Estimate — A written estimate provided by the lender of all charges — including closing costs and pre-paid and escrowed items—which you are likely to pay at closing. You should receive this within three days of submitting your loan application. You'll want to compare your estimate with the HUD-1 (see below) before your closing date.

Mortgage Note — A promissory note that states your intention to pay a specific sum of money at a specified rate of interest within a fixed period of time.

Mortgage — A legal document that gives the lender the right to take possession of the property if the borrower fails to pay off the loan. In some states, this is known as a "deed of trust".

Certificate of Occupancy — A document issued by a local municipality stating that the home meets all building codes and is suitable for habitation. You'll see this document if you're purchasing a newly built or renovated home.

HUD-1 — Also called the "settlement statement". This document provides an itemized breakdown of all costs and disbursements associated with the sale of the home. You are entitled to review this document a day before closing, so you should compare it with your Good Faith Estimate and resolve any issues before settlement.

Final TILA statement — Your "Truth In Lending Act" statement. This will disclose the full cost of your mortgage and annual percentage rate (APR). It will show any modifications such as rates and points that may have been made since applying for the loan.

Closing Costs

Sale or Refinancing of property. These charges will vary widely from state to state and lender to lender, but will likely include:

Points — Money paid by a borrower to the lender in exchange for a lower interest rate. Each point equals 1% of the loan amount.

Mortgage Application Fees — Charged by the lender to cover the costs of processing a loan application. It's sometimes paid up front at time of application; otherwise, it's included in the closing costs.

Appraisal Fees — The cost of paying a professional to assess the fair market value of the property. Usually required as a condition of the loan.



Closing Costs *cont'd*

Inspection Fees — The fees charged for home, pest and other inspections. Lenders sometimes require inspections to verify that the property is in good condition and will retain its collateral value.

Survey Fee — The charge for confirming the lot size and shape and to check for any encroachments.

Title Search Fee — Paid to Chicago Title to verify that the home's title is "in the clear", (i.e. that there are no liens or outstanding claims on the property).

Title Insurance Premium — The lender's policy covers only the lender and is required in most cases. A buyer's policy is optional but highly recommended, and is usually very affordable if purchased at the same time as the lender's policy.

Recording Fees — Charged by the local register of deeds to make the transfer of property a matter of public record.

Pre-paid Property Insurance — The first full year's property insurance premium, paid in advance, directly to the homeowners insurance company.

Pro-rata Property Taxes — An adjustment to ensure that both the seller and the buyer pay their share of the annual property tax, proportionate to the percentage of the year that each has ownership of the property.

Pro-rata Interest — An adjustment to cover the interest on the loan for the number of days until the first payment is due.

The Process

Even though "closing" or "settlement" often refers to the actual day that the transaction is finalized, it's actually a process that begins as soon as a purchase contract is signed.

PRE-CLOSING

Inspection — You'll want to be sure the home you're purchasing doesn't have any major flaws. Hire a professional inspector to walk you through the property and point out any issues. You should also receive a written summary of his/her findings.

Appraisal — Your lender will require an appraisal of the property's fair market value to ensure that they're not lending you more than the house is actually worth. Your real estate agent can help you find a licensed appraiser, but most lenders have their own and will take care of scheduling this directly with the realtor, or homeowner.

Title Insurance — It's a good idea for you to take out title insurance before you purchase the home, to protect you against any unforeseen claims that may arise.

Homeowner's Insurance — Because your new home will be used as collateral against your loan, your lender will require that you secure homeowner's insurance. Be sure to take care of this well in advance of the closing date. You will likely be required to show proof of purchase, so ask your insurance company for a binder.

Walk-Through — Within 24 hours before your closing meeting, be sure to conduct a walk-through of the property to ensure that it's in good condition and that any issues and/or contingencies have been resolved.

While you're handling all of the above, Chicago Title will be conducting a search on the property's title. We pore through property records looking for potential problems that might prevent a smooth transfer of ownership, such as old liens, tax liability, and housing code violations.

We may also physically inspect the property to verify the lot size and check for unrecorded easements. Once our work is complete, we offer title insurance to the lender, to protect the bank from any undiscovered issues surrounding the title. (Because the lender's policy protects only the lender, you'll want to be sure you're covered by a title insurance policy of your own.)

Meanwhile, one of our settlement agents is hard at work coordinating a lot of details. First, he/she looks over the purchase contract to make sure it's complete and accurate. If you've paid a deposit or "earnest money," the agent places the funds into an escrow account. He/she also coordinates the payoff of an existing mortgage, making sure the payoff figure is available for the final closing.

If there are any problems with the property, we bring them to the attention of all parties involved. In short, we coordinate many behind-the-scenes activities and gain the cooperation needed to ensure a smooth transaction.

CLOSING

When "closing day" finally arrives, you'll meet with several parties to finalize the transfer of property. Generally, the steps are:

Sign Documents — You'll be asked to initial or sign a number of documents.

Pay Closing Costs and Escrow — You should arrive at closing with a certified check to pay for closing costs.

Handing Over the Keys — Once all the papers are signed and the money has changed hands, you'll receive the house keys from the seller.

POST-CLOSING

After the settlement meeting, we officially record the mortgage and deed at your local Recording Office or Register of Deeds. Funds held in escrow, such as broker commissions and money owed to the seller, are disbursed after the transaction is recorded at the municipal office.

Pro-rata Interest — An adjustment to cover the interest on the loan for the number of days until the first payment is due.