

CLOSING PROCESS

The closing process is the period between the day you receive your loan approval and the day you finalize the purchase of your home. During this time you will schedule and complete all the pre-closing activities that are done prior to the closing date. At the closing, you will sign the paperwork to close the purchase of your new home.

Pre-Closing – Prior to closing there are several tasks that must be done.

Property Appraisal: An appraiser will view the property and also look up the price of homes comparable to the home you want to purchase. This is done to determine the fair market price for the home.

Property Survey: A surveyor will verify the property lines for the home being purchased.

Title Search: A title company will check that there are no outstanding liens against the property or other potential claim to the property.

Homeowner's/Hazard Insurance: Obtain homeowner's/hazard insurance. Lenders often require proof of payment of the first year's premium. Hazard insurance offers protection for you and the lender against loss due to fire, windstorm, and natural disasters. This coverage may be included in a homeowner's policy that insures against additional risks which may be personal liability and theft.

Home Inspection: A home inspector will determine the structural and mechanical integrity of the home. Examples of structures to be inspected include the foundation, walls, roof, floors, windows and doors. Mechanical items to be inspected include heating, ventilating and air conditioning (HVAC), plumbing and electrical fixtures, appliances and items that may convey.

Termite Inspection: An exterminator will inspect the home for evidence of infestation and/or damage by termites.

Radon Inspection: A radon inspection may be required in some localities. (EPA Radon info)

Final Walk-through Inspection: It is important that you complete a final inspection of the house, known as the walkthrough, within 24 hours before your closing. This is your final chance to check for any additional problems or repairs, to make sure that agreed upon repairs have been completed, and to check that the house is in the condition you would expect. You should check that all items conveying are present and left in acceptable condition.

Certified Check to Cover Closing Costs: A few days before closing you will be told what your final closing costs will be. You must have enough to pay these costs on the day of closing. Usually a certified check is required for payment rather than a personal check.

Closing Participants – Several people may be at closing representing the buyer, seller, and lender.

Homebuyer: Becomes the new owner of the home once the required payments and closing transactions are completed.

Seller: Transfers the house to the homebuyer.

Realtor: Helps the homebuyer understand all the documentation to ensure that the contract stipulations are correct and the closing process goes smoothly.

Attorney: You may use a real estate attorney to handle the closing transaction to protect your rights as a buyer and any loopholes with the legalities of the contract.

Escrow/Closing Officer: The escrow/closing officer is a neutral third party who helps both the buyer and seller, ensuring that all documents, inspections, and funds required to close the transaction are completed and received by the appropriate parties.

Title Company: Performs title search for the property.

Lender: Provides the loan package for the buyer.

Servicer: Organization (usually a lender) that collects your monthly mortgage payments and services your loan.

What Happens at Closing – Closing day is the day the homebuyer and the seller complete the legal transfer of the house. Once the closing process has been completed, the keys to the house are given to the buyer.

Present Closing Costs Check: Certified checks from the buyer and seller are given to the closing agent to cover the closing costs.

Review All Other Documents: The closing agent will have the buyer and seller review and, if correct, sign all remaining documents that complete the closing process.

Establish an Escrow Account: The closing agent will establish an escrow account for the buyer to cover property tax, homeowner's insurance interim interest, and possibly private mortgage insurance.

Execute Mortgage Documents: The buyer reviews and signs all of the documents required by the lender, the most important of which are mortgage or a security instrument (deed of trust).

Present Mortgage Check: A check is given by the lender to the closing agent to cover the mortgage amount.

Receive Title to the Property: A warranty deed is given to the buyer, signed by the seller.

Receive Keys to the Property: At the conclusion of the closing process the buyer will be presented the keys to the home. These keys should be temporary though. It is common practice to replace all the locks on the home to prevent anyone with duplicates from entering the home. The seller may also provide the buyer with other documents such as instructions and warranties for appliances and other major components that are part of the home.

Record Legal Documents: The recording process is the final step in the closing process. The escrow/closing company, attorney, or the company that handles your transaction will complete the recording. The process officially records certain items such as the warranty deed and security instrument.

Paperwork You Will Sign – On closing day, you will have a series of closing papers to sign. It is important that you review each of the documents with your real estate agent or attorney before signing.

Real Estate Settlement Procedures Act (RESPA):

Statement that acknowledges that you have been informed about how the closing process works, and that you understand all the closing documents and financial obligations related to the mortgage.

Truth In Lending Disclosure Statement (TIL):

Final statement that requires lenders to disclose all the actual terms and conditions of the loan. The final statement makes any corrections to the preliminary Truth in Lending Disclosure statement you received when you applied for the loan.

Mortgage Note:

Buyer's commitment to repay the mortgage. The note stipulates terms for the loan including the loan amount, interest rate, address to send payments, maturity date for mortgage, frequency of payments, and the change dates for adjustable rate mortgages.

Security Instrument (Mortgage of "Deed of Trust"):

Pledge of the property as security for the loan. The document stipulates the same basic debt information in the note and is recorded.

Warranty Deed:

Legal document that transfers the title from the seller to the buyer. The deed identifies the name of the seller and the grantor and the name of the buyer as the grantee.

Other Documents:

Local laws and customs will determine whether or not other documents will be used in your closing process. Some contain information that by law you are required to receive. These documents may require your signature to verify that you have received, read, and understood the document.

Loan Application:

Confirmation that the information, such as your employment and marital status, that was given when you first applied for the loan has not changed.

Escrow Analysis:

Lender provides a detailed itemization of the escrow account used in servicing your loan.

Tax Authorization:

Gives permission to your local real estate taxing authority to send tax bills directly to your loan servicer so that payments may be made from loan's escrow account.

Post – Closing: After the closing, the majority of your work is over. Following are some post closing matters that occur for many homebuyers.

Servicing Transfer Statement:

Once you begin making your monthly mortgage payments, you may receive a Servicing Transfer Statement from your lender. The lender that sold your mortgage may not necessarily be the lender that will be servicing your loan. This Servicing Transfer Statement will indicate that your loan has been sold. This simply means that your lender has sold your mortgage loan to another lender. This has no impact on your mortgage except that you will be paying your monthly mortgage payments to another lender.

Mortgage Payment Adjustments:

Periodically your loan servicer will send you a new statement showing the payment due for each billing cycle. This amount may go up or down depending on several factors. For example, if the local property tax rate has been raised, the payments may be increased to maintain sufficient funds in the escrow account.

Homeowner's Association Fees:

If the property you purchased is part of a Homeowner's Association (HOA), you will need to inform them that you are the new owner of the property. Most Homeowner's Associations require you to pay a fee. The fee is usually collected monthly or quarterly and usually covers trash pickup, snow removal, maintenance of common areas, and use of community facilities.