Coming to Grips With *Settlement*

What to Know before Your Closing

The closing, or settlement, is the last step in getting your mortgage and actually becoming the owner of your new home.

You'll probably see and sign more legal documents at your closing than at any other single event in your life. You'll have to pay a number of different fees, too — all of which can make your closing confusing and a little overwhelming.

What Is "Closing"?

If I agree to buy a house from you, we can shake hands. But then what? What about state and local laws and all the regulations that were created to protect both buyer and seller? What about finances, and the people lending the money?

Closing (or settlement, they mean the same thing) is about all of that. It is the legal process of transferring ownership of a home from one person to another.

Most people think of the closing as a single meeting. It's really a whole process, with plenty of decisions that can save you money — or cost you money.

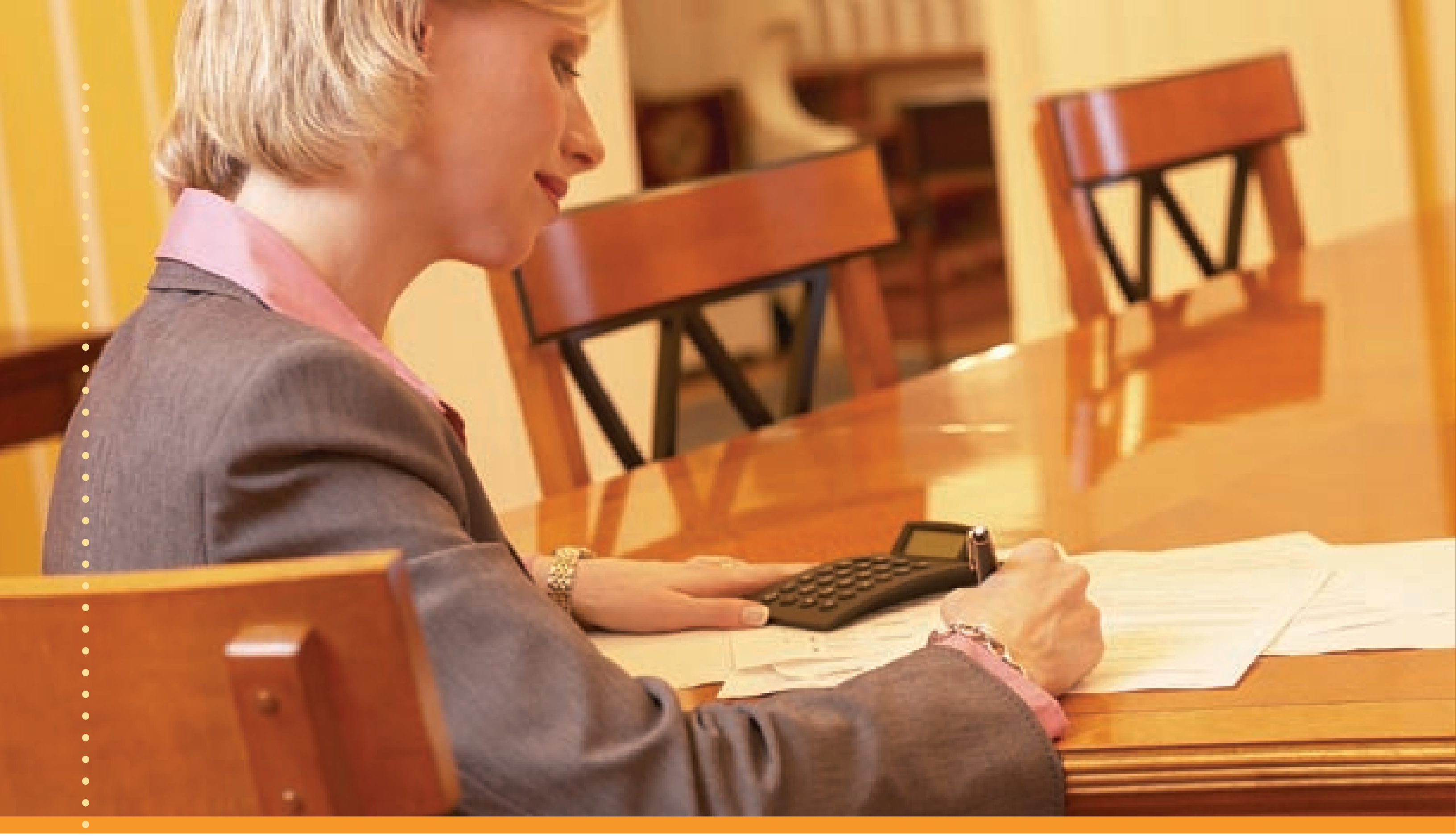
The Event

The process of closing that begins with your offer, ends at a meeting that is conducted by a person called the closing agent. This person may work for the lender or the title company, or may be an attorney representing you or your lender. He or she knows what documents need to be reviewed, and will have collected all the necessary paperwork from you, the seller and the lender.

This meeting is what most people mean when they say "the closing" or "the settlement." Several things happen here:

- Terms of the agreement between you and your mortgage lender are confirmed
- Your loan goes into effect, or "closes" and you receive your mortgage
- What you and the seller agreed to is confirmed in the sales contract
- Ownership of the home is transferred

Each of these steps normally involves several legal documents, each with costs for research and preparation. That's why there's so much to review, sign and pay for at the closing, and why some states require you to have an attorney present.



Who Attends

Who attends can vary, but the closing agent and you — or someone representing you — are always present. The seller, or someone representing him or her, is usually present, too, and real estate agents for you and the seller may or may not attend.

The agent makes sure everything is signed and recorded, and that the funds collected for various fees and expenses are properly dispersed.

At the closing, you will sign all the documents associated with your mortgage (we've listed them in this brochure). The agent will explain each document and give you and your attorney (if in attendance) the chance to look at them.

There are a lot of documents, and you have the right to have them in your possession for review 24 hours before your closing.

Scheduling Your Closing

As soon as you receive final loan approval (usually via a letter of commitment), you should confirm the time and date of settlement (an estimated date may be in your sales contract) with the seller and the lender. Usually, the real estate agents representing you and the seller are in the best position to coordinate the closing.

If you are scheduling your closing yourself, keep the following points in mind:

- Allow enough time to complete all required documents (most lenders need three to five days from the time you're given final approval; other parties may need more time).
- Allow time for any required repairs or maintenance on the house to be completed.
- Schedule before your loan commitment expires (specified in your letter of commitment, if you received one).
- Schedule before any rate lock agreement on your loan expires. In an escrow state (such as California) where the funds are disbursed through the escrow process, the disbursement of the monies to all parties involved is typically required prior to the expiration of the rate lock agreement, if the lender offers a rate lock agreement.

Just before the scheduled closing — ideally within 24 hours — you should plan to make a final inspection of your home with your real estate agent, ensuring that no recent damage has occurred and that the seller has honored all repair agreements.

Documents You'll Receive

SETTLEMENT STATEMENT HUD-1 FORM. Prepared by the closing agent, it lists all the important details regarding the sale of your new home: price, amount of financing, loan fees and charges, prorated real estate taxes and amounts paid back and forth between you and the seller. It must be signed by both you and the seller. Your lender will keep the original.

TRUTH-IN-LENDING STATEMENT (TIL). Shortly after you applied for your mortgage, you received a truth-in-lending statement from your lender, including your estimated monthly payment and the total cost of all finance charges involved in your mortgage. You'll get a corrected TIL statement at the closing only if these amounts have changed.

MORTGAGE NOTE. The mortgage note is legal evidence of your mortgage, and includes your formal promise to repay the debt. It also spells out the amount and terms of the loan, along with the penalties the lender can impose if you do not make your payments on time.

DEED OF TRUST. This document gives your lender a claim against the house if you don't live up to the terms of the mortgage. It lists the legal rights and obligations of you and the lender, including the lender's right to foreclose on the home if you default on the loan.

What Will Happen at Your Closing

There are two separate issues that can make closing seem complicated — the number of documents and the costs involved. Let's look at each separately.

The Number of Documents

Closing requires the review and approval of many documents with complex legal language. But behind that legal language is a straightforward agreement or certification. Generally, the documents confirm arrangements already agreed upon by you, your lender and the seller.

The Costs Involved

To ensure there are no problems with your home or your loan, much must be done, often by specialists, all of whom are paid.

Keep in mind that which party — you or the seller — pays for most of these fees is negotiable. However, depending on the state, the seller or buyer may be required to pay specific fees for property transfer, so you should consult with your lender or real estate agent.

What You Need to Bring

The closing agent will generally be responsible for ordering all the documents for your closing. You shouldn't have to worry about ordering any of the certifications or other documents. However, you are responsible for the following, which you must bring to your closing:

YOUR HOMEOWNER'S INSURANCE POLICY AND ANY OTHER REQUIRED INSURANCE POLICIES you've taken out, along with proof of payment (if not already provided). In most, if not all, cases the lender will require a review of the homeowner's insurance policy and proof of payment prior to scheduling the closing.

A CERTIFIED CHECK FOR ALL CLOSING COSTS, INCLUDING THE REMAINING PORTION OF YOUR DOWN PAYMENT. You can get this figure a day or two before your closing from your closing agent. In fact, you are entitled to a copy of the HUD-1 Settlement Statement a minimum of 24 hours prior to the closing of the loan. This statement itemizes the services provided and fees charged to you.

Common Certifications and Insurance

Below are some certifications and insurance coverages commonly required for closing, they vary widely according to state and local laws. Check with your lender — he or she will know the ins and outs of your state or county.

- **TITLE SEARCH AND TITLE INSURANCE.** The title search ensures the seller is the legal owner of the house and that there are no outstanding claims against the property. Title insurance guards the lender against a mistake in this search and will not necessarily cover you. You can get an owner's title insurance policy for a small additional premium. If the seller has owned the house for a short time, see if you can obtain a significantly cheaper re-issue rate.
- **SURVEY (NOT ALWAYS REQUIRED).** A survey ensures that the home and other structures on the lot are where they're supposed to be, and that the lot is free of any illegally encroaching structures. If a fairly recent survey is available, a less costly survey verification may be sufficient. In the case of a survey less than seven years old, your lender may accept a signed affidavit stating that no changes have been made to the property since that survey was completed.
- **BUILDING CODE COMPLIANCE LETTER (NOT ALWAYS REQUIRED).** Many local governments require a home to be inspected when it is sold to ensure that it is in compliance with local building codes. If it is not, repairs may be required before you can complete your purchase.
- **TERMITE INSPECTION AND CERTIFICATION (NOT ALWAYS REQUIRED).** Usually included as part of the purchase contract (it may be called a wood infestation report), it is generally paid for by the seller. It's required for all FHA and VA mortgages, and many conventional mortgages.
- **WATER AND SEWER CERTIFICATION (NOT ALWAYS REQUIRED).** Often required If the home you're buying is not served by public water and sewer facilities.
- **RESIDENTIAL USE PERMIT (RUP) OR CERTIFICATE OF OCCUPANCY (NEW CONSTRUCTION ONLY).** If your home is new, you will need a RUP or Certificate of Occupancy before you can close your mortgage loan. The builder is generally responsible for getting it.
- **HOMEOWNERS INSURANCE.** Your lender may require a copy of your policy before your closing to confirm your coverage, and will probably require it to cover the replacement value of your home. You should consider adding coverage for your furniture and other possessions. At the closing, you will generally have to pay for at least two months of coverage.
- **MORTGAGE INSURANCE (NOT ALWAYS REQUIRED).** If you have a conventional mortgage and your down payment is less than 20 percent, you may have to get mortgage insurance. (If your loan is insured by FHA or guaranteed by VA, you'll pay FHA mortgage insurance premiums or a VA funding fee.)
- **FLOOD INSURANCE (NOT ALWAYS REQUIRED).** Required by law if the home you're buying is on a defined flood plain. The policy must be in force at the time of the settlement, and remain in force for the life of the mortgage.

This is by no means a complete list. For example, you may have to sign a statement that you intend to make your new home your primary residence. As there are serious consequences for making false statements in these documents, make sure you understand them. Ask your lender beforehand about which documents will be at your closing.

Fees and Taxes

The fees listed here are typically associated with settlements throughout the country. You should have received an estimate of your anticipated closing costs from your lender shortly after you applied for your mortgage. You can get an exact figure for all final costs a day or two before your closing from your closing agent.

- **APPLICATION FEE.** Covers the lender's initial costs to process your application and in some cases includes the cost of the property appraisal and credit report. It is often charged when you complete your mortgage application.
- **APPRAISAL FEE.** Payment for the independent appraisal of the home you're buying; this fee may have already been paid directly to the appraiser or when you completed your application.
- **CLOSING COST FEE.** Typically, closing cost fees range from three to five percent of the cost of your home.

- **LOAN ORIGINATION FEE.** Usually a percentage of the loan amount, this covers the remaining costs associated with completing your loan. On FHA and VA loans, it is based on the base loan amount rather than the gross loan amount.
- **DISCOUNT POINT.** Paid to the lender to obtain a lower stated interest rate, you can pay discount points (or simply "points") when you close. You are, in essence, prepaying finance charges. A percentage of the loan amount, one point is one percent of the value of the mortgage (for example, $1,000 on a $100,000 mortgage). On FHA and VA loans, they are based on the base loan amount rather than the gross loan amount.
- **TAXES.** Local governments generally charge transfer, recordation and property taxes when a home changes ownership. In some parts of the country, these taxes can be quite substantial. You cannot reduce them, but you may be able to negotiate with the seller to share them when you make your offer. However, some states require either the seller or the buyer to pay these taxes or require they be split between the two parties.

You may have other fees or costs at your closing as well. If you are assuming the seller's mortgage, for example, there may be an assumption fee. The amount is set by the lender, but could vary between several hundred dollars and one percent of the loan.

You and the seller may have negotiated other payments, which will be settled at the closing, too, such as prorated payments for condominium fees or property taxes.

Finally, you may have to pay for the services of the closing agent in conducting the closing.

A Few Things to Remember as You Leave

As basic as it sounds, make sure you know when your first mortgage payment is due and where to send it. Within a few weeks of closing most lenders provide a coupon book clearly listing due dates and the correct mailing address.

Also be aware that immediately following closing (or perhaps later) your loan may be transferred to another lender or investor of the lender for "servicing," or collection of the loan payments. Your lender will disclose whether it will service your loan or transfer the servicing to another company.

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