

# How To Prepare For Closing

*Closing or settlement (also called close of escrow in some states), is a process that involves a lot of paper and a lot of money. When it all stops sliding back and forth across the table you own your new home. Congratulations!*

Celebration aside for the moment, at closing the ultimate purpose of the original sales agreement is achieved: Ownership of your new home is transferred from the builder to you. The technical steps include finalizing your loan (one set of papers and checks) and the builder selling you the home (another set of paper and checks).

Next the money is disbursed to the appropriate people and companies, including real estate agents, attorneys, title company, and surveyor, just to list a few. Title is transferred and the loan is recorded against your new property.

This process sounds easy enough, but it involves about 75 documents. Some of the documents are duplicates, but you need to sign nearly all of them.

Depending on how many questions you have, closing should take from 45 to 90 minutes. To understand how this closing is achieved, let's review the process one step at a time.

## **SETTLEMENT AGENT**

Depending on where you are building, your lender, a title company, an attorney, a real estate broker, or an escrow company can serve as the settlement agent and orchestrate the closing. Services provided by the settlement agent include ordering the title work and property survey, and organizing all the paperwork for the closing itself. Chances are either your builder or your lender has experience with closing agents in the area and will suggest a closing agent. If the choice is left to you, compare the services provided and fees charged before making a final choice.

## **ESCROW CLOSING**

In some parts of the country, an escrow agent handles closing. This type of closing takes place in steps as outlined in an escrow agreement which you will sign. The agreement specifies that the buyer and the seller will each deposit required documents and funds with the escrow agent within a set time frame. One or more days later, the escrow agent records the transaction. Once recorded, the escrow is closed. You now own your home and can pick up your keys (the builder or closing agent will advise you where).

## **PREPARATION**

Whether you close in escrow or in person, the key to settlement is preparation. By addressing the details during the weeks before closing, you have time to resolve any last-minute glitches calmly.

**INSURANCE.** You need to obtain and present proof of a homeowner's policy from your insurance company. Your insurance agent will have a standardized form for this purpose. Arrange for proof of insurance no later than 3 weeks before the expected closing date. This insurance policy should list your lender also insured. Check with your loan officer ahead of time to learn the complete legal name to be used in this reference. Your insurance agent will need the name and phone number of your lender and will want to know the location of the nearest fire hydrant, the type of construction of the home, and price.

**UTILITIES.** Your goal is to have service provided in your name beginning as close to the date of the closing as possible. The utility companies may shut service off if the builder's name is removed from the account without yours taking its place. Make no assumptions about the availability of telephone service and do not rely on the experience of your new neighbors. Workloads change and lead times fluctuate. Call early to avoid inconvenience. Cable TV may not be available until a predetermined number of homes are occupied in a new area.

**UNRESOLVED ISSUES.** Your builder and lender may attend the closing but are not required to do so. Closing agents are not authorized to negotiate or make representations on behalf of any party involved in the closing. If any issues remain unresolved, you are not ready to close. Finalize all agreements before closing.

**LENDER CONDITIONS OR CONTINGENCIES.** Your loan approval may have included one or more contingencies. You must satisfy all loan conditions in order to close. For example, if closing the sale on a previous residence was a condition of loan approval, you need copies of these closing documents to close on your new home.

**THE FINAL NUMBER.** The amount of money you must bring to closing includes items such as property tax and interest on your new loan. These items are subject to proration and change depending on the exact date of closing. Therefore the closing agent cannot calculate the total until the closing date is set. A federal law, the Real Estate Settlement Procedures Act (RESPA) provides you with the right to see the final figures 24 hours before closing, just ask for them.

**FORM OF PAYMENT.** Depending on the requirements of your lender, you may need to bring cash or certified funds to closing. Allow time to obtain these funds. Remember that banks sometimes place a hold on funds moving to your account from another source. Check with your closing agent regarding how to make out the check. You can usually cover minor, last-minute adjustments in costs with your personal check.

## **CLOSING DOCUMENTS**

At closing, you sign and receive the documents necessary to convey the new home to you and close the loan from the mortgage company. The standard documents include the following:

**DEED.** The deed conveys the home and lot to you, subject only to permitted exceptions such as a recorded easement.

**PROMISSORY NOTE.** This note is from you, payable to the lender in the principal amount of

the loan plus interest.

**MORTGAGE DEED OF TRUST.** This document encumbers your home as security for repayment of the promissory note.

**TITLE INSURANCE COMMITMENT.** The title insurance company will mail the actual policy several weeks following the closing. When you receive this policy, keep it in a safe place with your other important papers. What you receive at closing is a promise that the insurance company will issue the policy.

**BUILDER'S LIMITED WARRANTY OR INSURANCE-BACKED LIMITED WARRANTY.** Unless you move into your home early under a rental agreement with your builder, the limited warranty begins as of the date of closing.

**HOMEOWNER ASSOCIATION DOCUMENTS.** If your new home is a covenant-protected community, you will also see homeowners association covenants, conditions, and restrictions, the association by-laws, and articles of incorporation at closing. In addition to these standard items, the lender, title company, or the builder may ask you to sign other documents.

## **CLOSING EXPENSES**

The closing agent itemizes the charges and credits for closing on standardized form called a Settlement Statement. The form lists standard items and has blank lines for additional entries specific to your purchase. Not every line applies to every closing.

If you already owned your lot, the process for closing is simpler. You signed much of the paperwork described here when you closed on your lot purchase. Similarly, some custom home construction loans, which go by names such as one-time close, combination loan, or express loan, convert to a permanent mortgage without a second closing.

*Although closings vary from region to region and with the type of financing, ultimately the goal is the same: the transfer of ownership of your new home from the builder to you. Ultimately, you have house keys and the time has come to move in and begin to enjoy your new home.*