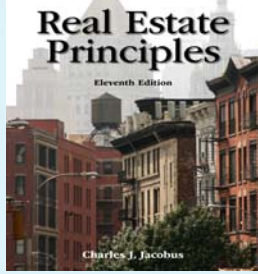


Chapter 16

Title Closing
and Escrow



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Buyer's Walk-Through

This is the final inspection of the property just prior to closing to make certain that the premises have been vacated, no damage has occurred, agreed personal property is left behind, and that no real property has been removed.



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Closing

- ▶ This occurs when the buyer pays for the property and the seller delivers the deed.
- ▶ Also known as "Settlement", "Closing Escrow", "Passing Papers"
- ▶ Who attends?
 - Closer, real estate agents, buyer, seller
 - Lender, lawyers
- ▶ Settlement meeting – Historically was the most common.



Escrow Closing

- ▶ Escrow – use of a neutral third party, called the escrow agent, who acts on behalf of both buyer and seller to carry out instructions of the contract.
- ▶ Most often parties never meet face to face

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Seller's Duties

- ▶ Execute Deed and Bill of Sale
- ▶ Comply with Title Commitment
 - Lien Waiver/Indemnity
 - Clear Title
 - Satisfy mortgages/liens
- ▶ Water bill & utilities

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Buyer's Duties

- ▶ Bring Settlement Funds
 - Cash or certified funds for down payment
 - Check from loan company
- ▶ Bring Hazard Insurance binder
- ▶ Execute documents

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Escrow Agent Duties

- ▶ Prepare closing documents
- ▶ Inform all parties, make required disclosures
- ▶ Conduct closing meeting (About 30 days for a cash deal)
- ▶ Make sure contractual and legal obligations are met
- ▶ Disburse funds
- ▶ Deliver executed documents to parties
- ▶ Record documents
- ▶ Report transaction to taxing authorities

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Real Estate Settlement Procedures Act (RESPA)

- ▶ Controlled business arrangements and kickbacks
- ▶ Limits escrow amounts to 1/6th of annual
- ▶ Uniform Closing Statement (HUD1)
- ▶ Disclosure & Information:
 - HUD booklet
 - Good faith estimate of loan costs within 3 days
 - Closing Statement one day prior to closing

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Closing Costs/Expenses and Who "USUALLY" Pays Them

From accounting standpoint, Debits must equal Credits. **Debits = Costs** ie. an appraisal for buyer's loan is a debit to buyer

- 1) Title extension – Seller
- 2) Title opinion – Buyer
- 3) Title Insurance – Split
- 4) Appraisal fee (for loan purposes) – Buyer
- 5) Survey (for loan purposes) – Buyer
- 6) Credit report – Buyer
- 7) Loan document generation – Buyer

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Closing Costs/Expenses and Who "USUALLY" Pays Them

- 8) Prepaid interest – Buyer
- 9) Mortgage insurance premium – Buyer
- 10) Assumption fee – Buyer
- 11) Hazard insurance – Buyer
- 12) Unpaid taxes prorated to closing – Seller
- 13) Prepaid taxes prorated after closing – Buyer
- 14) Attorney fees – Each party own

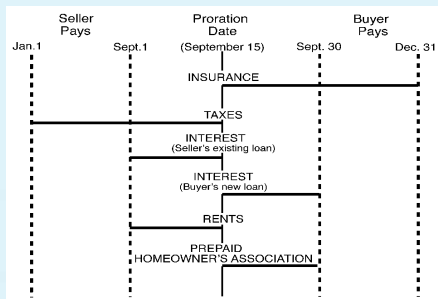
(Costs = Debits)

Closing Costs/Expenses and Who "USUALLY" Pays Them

- 15) Prorated rent paid in advance – Seller
- 16) Insurance being assumed – Buyer
- 17) Termite inspection – Buyer
- 18) Termite treatment and repair – Seller
- 19) Other inspections – Buyer
- 20) Repairs from inspections – Seller

Remember *Cost = Debit*
Debits must equal credits (across ledgers)

Common Prorations



Prorating Methods

- ▶ Banker's Year (12 months of 30 days)
 - Statutory Month (each month 30 days)
- ▶ Calendar Year (365 days except leap year)
 - Calendar Month (exact number of days in month)
- ▶ Fractional Month
- ▶ Prorate from/to what day? When is possession given?

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Example Using Prorating Methods

\$4,000 taxes to be prorated to October 17, in non-leap year

Banker's Year 9 mo. 17 days	Calendar 290/75	Fractional Month 9 ^{17/31}
$(\$4000/360)*17$ + $(\$4000/12)*9$	$(\$4,000/365)*290$	$(\$4,000/12)*9$ 17/31
\$3188.88	\$3178.08	\$3182.80

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Good Faith Estimate

GOOD FAITH ESTIMATE OF CLOSING COSTS
 The charges listed below are our Good Faith Estimate of some of the settlement charges you will need to pay at settlement of the loan for which we have applied. These charges will be paid to the title or escrow company that conducts the settlement. They do not cover all items you will be required to pay to settle a settlement. For example, the good faith estimate for each item may vary from state to state and insurance. You may wish to inquire as to the amounts of each other items. You may be required to pay other additional amounts at settlement. This is not a commitment to under a loan.

Item	Estimated Fee
001 Loan Origination Fee	\$
002 Loan Discount	\$
003 Appraisal Fee	\$
004 Credit Report	\$
005 Mortgage Insurance Application Fee	\$
007 Acupuncture Fee	\$
008 Tax Service Fee	\$
009 Interest	\$
010 Mortgage Insurance Premium	\$
1101 Subordinate or Closing Fee	\$
1102 Notary Fee	\$
1103 Title Insurance - Lender's Coverage	Let seller show items
1104 Title Insurance - Owner's Coverage	Let seller show items
1105 Recording Fee	\$
1106 City/County Tax/Charge	\$
1107 State Tax/Charge	\$
1108 First Impjct Fee	\$
1109 Building Inspection	\$
1110 These amounts correspond to the HUD Disclosure Statement	TOTAL \$

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NEW RESPA Rules

- ▶ Mortgage rules to help consumers shop for lower cost home loans.
- ▶ Good Faith Estimate (GFE) form that more clearly answers key questions when applying for a mortgage.

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Sample HUD-1

New HUD-1 Settlement Statement that allows consumers to easily compare their final closing costs and loan terms with those listed on the new GFE.

The rules also require that payments to mortgage brokers will be disclosed in a more meaningful way to help buyers select the lowest cost loan.

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Ledger Style Closing Statement Seller

Proration date:	09/15	Days:	1	Baran Law Office
Sellers Name:	Homer Levitt			Estimated Seller
Buyers Name:	Neidi Delone			Closing Statement
Property Address:	1654 W. 12th, City, State			
	Seller Costs	Seller Credits		
Purchase Price		123000.00		
Buyer paid				
Buyers Mortgage				
Mortgage Payoff	48000.00			
Accrued Interest	240.00			
Title Insurance	400.00			
Lender's Policy				
Tax, past year				
Tax, current year	1190.00			
Documentary tax	123.00			
Recording fees				
...Deed		5.00		
...Release				
...Mortgage				

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Seller's Ledger (cont'd)
 Example shown does not match book's example

Inspections				
...Termite	39.00			
...Furnace/AC				
...Other				
Broker Fees	7380.00			
Escrow closing	110.00			
Legal Fees	120.00			
Appraisal				
Survey				
Insurance		180.00		
Notary	2.00			
Bank charges				
...Loan origination				
...Interest				
...Credit report			Approved and accepted:	Dated:
Heating Oil				
Reserve-Insurance				
Reserve-Taxes			ssn/ln	
Deed Prep.	10.00			
Subtotals	57618.00	123310.00	Approved and accepted:	Dated:
Balance due:	66991.00	to Seller		
Balance due:			ssn/ln	
Justification	123310.00	123310.00		

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Ledger Style Closing Statement Buyer

Proration date:	09/15	Days:	1	Beran Law Office
Sellers Name	Homer Levitt			Estimated Buyer Closing Statement
Buyers Name:	Neidi Delono			
Property Address:	1654 W. 12th, City, State			
	Buyer Costs	Buyer Credits		
Purchase Price	123000.00			
Buyer paid		3000.00		
Buyers Mortgage		90000.00		
Mortgage Payoff				
Accrued Interest			NOTES:	
Title Insurance	90.00			
Lender's Policy				
Tax, past year				
Tax, current year		1190.00		
Documentary tax				
Recording fees				
...Deed	5.00			
...Release				
...Mortgage	10.00			

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Buyer's Ledger (cont'd)
 Example shown does not exactly match example in book

Inspections				
...Termite				
...Furnace/AC				
...Other				
Broker Fees				
Escrow closing	110.00			
Legal Fees	150.00			
Appraisal	100.00			
Survey				
Insurance		180.00		
Notary	2.00			
Bank charges				
...Loan origination	900.00			
...Interest	360.00			
...Credit report	25.00		Approved and accepted:	Dated:
Heating Oil	130.00			
Reserve-Insurance	60.00		ssn/ln	
Reserve-Taxes	1680.00			
Deed Prep.				
Subtotals	126802.00	94190.00	Approved and accepted:	Dated:
Balance due:		from Buyer		
Balance due:		32612.00	ssn/ln	
Justification	126802.00	126802.00		

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Key Terms

- Closing meeting
- Escrow agent
- Escrow closing
- Prorating
- RESPA
- Settlement statement
- Title closing
- Walk-through

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