



Charting Your Course to Home Ownership

The Closing: What You Should Know

The closing is when you legally buy the property. It is usually a formal meeting attended by the buyer, seller, listing agent, selling agent and closing agent. Depending on local practice, the closing agent could be your attorney, your lender, the title insurance company agent or other real estate professional.

Preparing for Closing

Before closing day, there will be tasks you must complete. There are also several things you should do to avoid delays and problems. Your “To Do” list may include:

- Be sure your closing date falls within your lender’s commitment period so your interest rate lock-in (if there is one) stays in effect through your closing date.
- Give your present landlord enough notice (usually 30 days). If you are moving out before your lease expires, check it to see if it requires you to pay out the rest of the lease term and if you can recover your deposit without any penalties.
- Make sure the title search is done as early as possible (in case there is a title problem that needs to be cleared up before closing).
- Order your home owner’s insurance policy, and send the policy to your closing agent before the closing day.
- Do a final walk-through to inspect the house one more time as near the date of your closing as possible to make sure everything is the way you expect it to be. The walk-through is your chance to question any previously agreed-upon repairs that have not been made, any new damage and the removal of anything that was supposed to stay in the home. (Of course, your purchase agreement should clearly state this.) You can then postpone the closing until the problems are fixed by the seller or negotiate a new agreement in time.

If the home is new construction, you may want to sign off on a document, often called a punchlist, with the contractor to identify any remaining minor items which may need to be completed after the closing. It’s a good idea to hold back some money from the contractor in the escrow account until all agreed punch list items are completed. If major work remains to be done, you should postpone your closing.

- Make sure the seller will be out of the house before your closing date, but avoid leaving the house empty too long. If the seller can’t move out in

time, it may be wiser to postpone the closing date rather than rent to the seller after you take ownership.

- Check with your lender a week before closing to find out exactly how much money you will need for closing costs, to whom checks should be made out and what types of checks are needed.

On the day of closing, be sure to have:

- The right time, date and place of the closing and correct spelling of your closing agent's firm.
- Any receipts for closing-related expenses you have already paid, such as your deposit on the house, mortgage application fees, inspection fees and home owner's insurance policy or binder.
- Enough money for all the closing costs in certified checks or money orders as specified by your lender or closing agent.

The Closing Documents

The main activity in a closing is reading and signing papers. You will be asked to sign legal documents that record your promise to repay your loan and give the lender rights to the house if you default.

Although the closing agent can help you understand the documents you must sign, you may want an attorney to read the documents with you and represent your interests. You will be asked to sign several documents and affidavits. Here are some of the most important documents you will see:

HUD-1 Settlement Statement

This form, which is required by federal law, itemizes the lender's loan related services and lists the charges to the buyer and the seller. It is filled out by the closing agent. Both the buyer and seller must sign it. One business day before settlement (closing), buyers have the right to inspect the HUD-1 Settlement Statement. It's a good idea to compare the fees you will actually pay with those agreed to earlier (especially if you negotiate any fee reductions or waivers).

The Note

The mortgage note is your promise to pay the lender according to the agreed terms, including monthly payment amount, payment due dates and where payments should be sent.

The note also states the penalty fees that will be charged if you are late with your payments and warns you the lender can call the loan (require full payment before the end of the loan term) if you fall behind on your payments or if you otherwise violate the terms of your note or mortgage.

The Mortgage

The mortgage (or deed of trust) secures the note, giving the lender a claim against your house if you default on the note's terms. You have ownership of the property, but the lender has the right to reclaim it upon default until the loan has been paid in full.

The mortgage restates the basic information contained in the note and the date of the final scheduled payment. It typically requires the borrower to:

- pay the principal, interest, taxes and insurance in a timely manner;
- maintain hazard insurance on the property without lapse; and
- maintain the property and not allow it to deteriorate.

If you do not comply with all these requirements, you are in default and the mortgage allows the lender to demand full payment of the loan balance immediately, foreclose on the property, sell it and use the proceeds to pay off the loan and costs of the foreclosure.

Affidavits

You may be asked to sign several affidavits (oaths) required by state law or the lender. For example, you may need to sign an oath that you plan to live in the property you are buying. If you give false information, you can face criminal penalties and your lender might demand immediate full payment of the loan.

Cash Sale

The cash sale transfers ownership from the seller to you. It is prepared and recorded by the title company.

Closing Costs

The closing costs are the fees charged by the mortgage lender and other service providers such as: the mortgage origination fees, credit report fees, discount points, lender's attorney's fees, document preparation fees, land survey, appraisal, hazard insurance escrow account. Most of these costs are usually paid by the buyer, but the local customs vary. Not every lender charges for every item. It's possible to have an agreement where the seller pays some or all of the closing costs.

Review the Good Faith Estimate prepared for your mortgage loan. You may be able to reduce your costs through negotiating and by shopping around for lower cost sources of closing services such as legal representation, title insurance, hazard insurance and inspections.

The following table gives a rough estimate of closing costs for a \$180,000 mortgage. It does not include taxes and government fees, escrow and prepaid items. This is only an estimate, and your closing costs will probably be different from these. In most cases, closing costs range from 3% to 8% of the loan amount (not including the down payment).

Closing costs averages comparison: Louisiana		
Item	Louisiana	U.S. Average
Origination fees		
Loan amount	\$180,000	\$180,000
Points	0.454%	0.485%
Points (\$)	\$816	\$874
Administration fee	\$200	\$237
Application fee	\$282	\$284
Commitment fee	--	\$425
Document preparation	\$204	\$206
Funding fee	\$188	\$181
Mortgage broker, origination or lender fees	\$794	\$853
Processing	\$398	\$369
Tax service	\$76	\$69
Underwriting	\$343	\$303
Wire transfer	\$25	\$24
Title and closing fees		
Appraisal	\$318	\$327
Attorney, closing or settlement fee	\$396	\$426
Credit report	\$20	\$20
Flood certification	\$15	\$14
Pest, other inspection	\$60	\$62
Postage / courier	\$42	\$45
Survey	\$204	\$234
Title insurance	\$854	\$756
Title work: Title search, plat drawing, name search, endorsements	\$190	\$167
Total average fees	\$2,851	\$2,748
<i>Note: The figures displayed above were collected in 2005, prior to Hurricanes Katrina and Rita.</i>		

Adapted from: Reichel, C. (1998). *Your Path to Home Ownership*. Baton Rouge, La.; LSU AgCenter.

Additional References:

Bankrate.com.research (2008). *Closing costs averages comparison: Louisiana*. Retrieved March 28, 2008 from <http://www.bankrate.com/brm/news/mortgages/cclouisiana.asp>

LSU AgCenter Writing Team:
 Jeanette A. Tucker, Ph.D., Professor
 Deborah L Hurlbert, Extension Associate
 Sheri Richard Fair, Extension Agent, Ascension Parish
 Deborah C. Cross, Extension Agent, Iberville Parish
 Cynthia C. Richard, Extension Agent, Calcasieu Parish
 Cynthia B. Stephens, Extension Agent, Ouachita Parish

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