



Closing Process

Let's start at the very beginning — what does "closing," "settlement," or "closing escrow" on your house mean?

Closing – or settlement as it is known in some parts of the country — is a term used for the point in time at which the title to the property is transferred to the buyer and, generally, a mortgage (or "deed of trust") is given by the buyer/borrower to the lender.

Buying a house is an exciting time and the more you know about the process, the more relaxed you'll be going through it. Keep reading, and we'll walk you through what the closing process really means.

Some information about the costs associated with closing on your home should be provided to you before you put a contract on a house. If you are obtaining a loan to purchase the property, your lender has three days from the time of the loan application to provide you with a Good Faith Estimate of your loan costs so there are no surprises about costs. Within those three days you should also receive a copy of the booklet, "Buying Your Home," which outlines the settlement process. If these two things do not occur, talk to your lender.

Once the seller accepts your sales contract, the countdown to closing begins. Timing is essential to make sure all the ingredients for a successful closing are in place for your arrival. You can shop around to select a settlement agent to prepare the documents for your closing, or you can rely on a recommendation from your real estate agent or lender. In some parts of the country, the settlement agent is an attorney, title company, or escrow company. Once a settlement agent has been selected, he or she will handle the closing process from there. If you have given the seller an earnest money deposit, the escrow agent, settlement agent, or real estate broker (this varies based on where you live), will see that it is promptly deposited into an escrow account where the funds are held until the time of closing.

Next, the settlement agent will request preliminary title work. A title professional will search and examine the public records for information related to your home's title. This provides warnings of title flaws that must be dealt with before the property can change hands. For instance, the previous owner may have failed to pay local or state taxes. Or there may be an outstanding mortgage or judgement on the property. Title professionals work hard to see that such obligations are dealt with and resolve any issues they find well before you go to closing, if possible. If the sales contract calls for a prior mortgage to be paid off, the settlement agent will order payoff figures from the existing lender. If the buyer is assuming the loan, the settlement agent handles that as well. He/she, if directed to do so, also may order property inspections and termite reports. If it is customary in your area, the settlement agent may order a survey.

Finally the settlement agent is ready to prepare the HUD-1 Settlement Statement. The HUD-1, as it is referred to, outlines all of the costs for both the buyer and seller associated with the closing.

On closing day, the property will be transferred from the seller to the buyer. In most parts of the country, you will sign a number of documents that will be explained by your settlement agent. Check with your settlement agent for more details on how the closing is conducted in your area. Once all of the signing is done, the house is yours! Congratulations on achieving the American Dream!

You should be generally aware that the behind-the-scenes process continues after the closing. The settlement agent still must forward payment to any prior lender, pay all the other parties who performed services in connection with your closing, pay out any net funds to the seller, and order a final search of the title to your new home before finally recording all the documents needed legally to complete your purchase. But you don't have to be involved in any of this. Your settlement agent takes care of these post-closing details!