Coming To Grips With *Settlement.*

MORTGAGES FROM A TO Z

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 you make along the way.

The Event

The process of closing that begins with your offer and 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 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.

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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; in most cases, Boulder Valley Credit Union only requires one to two days).
- 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.
- 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.

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 work with your loan officer to obtain all the necessary documents. 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, realtor or loan officer. 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.

Your current identification card. The closing agent needs to verify that you are the true and correct borrower to prevent identity fraud.

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 or liens against the property. Title insurance guards you and the lender against a mistake in this search. The seller pays for this portion of the title insurance. You will pay for an owner's title insurance policy for a small premium. If the seller has owned the house for a short time, you will be issued 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.

- *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 will 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 in addition to the annual premium, which is paid in advance.

- *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. The lender will obtain this insurance.

- *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 Escrow

The fees listed here are typically associated only with loans provided by Boulder Valley Credit Union. You should have received a good faith estimate of your anticipated closing costs from us 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 realtor or loan officer.

- *Administrative fee:* The credit union charges a flat fee that consists of processing, underwriting, document preparation, credit reports, wire transfer, courier, flood certificate and other misc. fees.

- *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.

- *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).

- *Title:* Paid directly to the title company handling the real estate transaction. Fees will consist of the closing fee, title insurance, endorsements, tax certificate, recording fees, courier fees and any other misc. fees.

- *Taxes:* We will establish an escrow account in order to pay real estate taxes on an annual basis. On a purchase transaction, the total amount collected will not exceed two months of the annual amount. Any excess needed to establish the account will be prorated from the seller.

- *Hazard Insurance:* We will establish an escrow account in order to pay your homeowners insurance premium on an annual basis. In addition to the annual premium, we will collect two months for the escrow account.

You may have other fees or costs at your closing as well.

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.

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.

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. Boulder Valley Credit Union does not sell a majority of our loans so your payments will almost always be due to us. If for any reason your loan is sold, we will notify you in advance.

Contact your Boulder Valley Credit Union with questions concerning your mortgage needs.