

## **CLOSING / FUNDING**

Funding the loan is the final stage in the origination process. The closing/funding process includes the preparation and signing of the necessary loan documents and the release of loan funds.

The funding date is the date when funds are disbursed to the closing agent. The closing date is the date when the loan documents are executed (table funding states), or the loan records (escrow funding states). In many market areas, the closing date is usually one business day after funding.

### ***What Are Closing Costs and Who Pays for Them?***

The various fees associated with buying or selling a home are called closing costs. Buyers and sellers both pay closing costs but who pays what costs varies from area to area. For example, in Los Angeles, sellers usually pay for title insurance. In San Francisco, it's customarily paid for by the buyer.

Buyers typically pay the following closing costs: fees charged for obtaining a mortgage; inspection fees; homeowner's insurance (must be prepaid for one year at closing); transfer taxes if there are any (although the seller may pay these or they may be shared 50-50 between buyer and seller); title insurance and escrow fees (depending on the location); and attorney's fees (where attorneys are involved in the transaction).

Sellers' closing costs typically include: loan payoff fees; the real estate commission; title insurance (depending on the location); termite repairs (this is negotiable in some areas); all or part of transfer taxes and escrow fees, if there are any; attorney's fees where applicable; and other fees set by local custom or negotiated during the transaction.

The most expensive closing cost a buyer pays is often the loan origination fee. Lenders charge points to originate a loan. One point is equal to one percent of the loan amount. A \$240,000 loan with a 1-point fee will add \$2,400 to your closing cost bill. This charge can be eliminated if you take a no-point loan. You'll pay a higher interest rate on a no-point loan, but you'll conserve cash.

Another way to generate cash to pay for closing costs is to ask the seller for a cash credit at closing. Lenders have restrictions on how much a seller can credit to a buyer (often no more than 3 to 6 percent of the selling price). And some lenders will only allow credits for nonrecurring closing costs; that are, closing costs like title insurance that are paid on a one-time-only basis. Keep in mind that when you ask the sellers for a credit, you are, in effect, asking them to lower the price of their property. If the sellers give you a \$5,000 credit, their proceeds will be reduced by \$5,000.

### ***Ready to Fund***

A loan is ready to close when the underwriter has approved the loan, all conditions are met (these are conditions the underwriter wants satisfied prior to closing), the interest rate has been locked, and the borrower has made a decision to proceed with the transaction.

There are numerous differences in the way each state completes the closing/funding process.



## Escrow Funding

In escrow funding states, funds are delivered after the signed documents have been received and reviewed by the lender. For example, this is a common practice in California.

## Table Funding (Wet State)

In table funding states, for purchase transactions only, funds are delivered at the same time the documents are signed. Usually a funding check is delivered to the closing agent along with the lender's closing documents. The buyers and sellers sign and will exchange funds at the same time. The lender reviews the documents after the funds have been delivered. For example, this is common practice in Texas and the Mid-Atlantic Region.

## General Stages

The Loan Document Specialist prepares, prints and sends the necessary documents to the closing agent. In table funding states, the closing documents normally include a funding check or wire. The closing agent will meet with the borrowers, and any pertinent party such as the attorney, real estate agents, etc., to sign the legal documents. The closing agent is also responsible for meeting any conditions required by the lender prior to disbursing funds. It is critical that the documents sent to the closing agent are accurate. The instructions for any funding conditions must be clear and concise. The clearer the instructions, the more likely you are to receive a package that is ready to fund or ship. On purchases in table-funding states, funding instructions may be more critical. Closing agents will be held responsible for following funding instructions prior to disbursement of funds.

- Closing is the process of preparing and assembling all the required loan file and legal documents, disbursing the mortgage funds, and recording the necessary documents to finalize the mortgage transaction.
- The purpose of closing is to establish a first lien on the property and bring an enforceable debt into being.
- Loan closing may be handled by an outside attorney, a title insurance company, an escrow agent, or the closing staff of a lender.
- It is the lender's responsibility to make sure that the loan is closed within the deadline established by the loan commitment.
- Documents that are of critical importance in closing a loan:
  - ❖ The note – the borrower's promise to repay the debt
  - ❖ The mortgage/deed of trust – the borrower's pledge of the property as security
  - ❖ Uniform Settlement Statement (HUD - 1) – disclosure of closing cost
  - ❖ Truth-in-Lending Statement – disclosure of financing cost (APR)
  - ❖ Title Insurance – insurance against defects in the title
  - ❖ Hazard Insurance – insurance against property damage



- ❖ Flood certificate and flood insurance if applicable

