Step 6:

Getting Ready to Close Your Loan

This is the step where the house becomes officially yours and you become a homeowner. At this point, you completed negotiations for the terms of the home purchase, determined your loan, and probably figured out whether you want to make any home improvements. Now is the time to tie up loose ends, fill out any remaining paperwork for your mortgage, inform your rental management company that you're moving out (if applicable), and schedule movers or rent a moving truck (or call that friend with a big truck for help). Let's go over what's involved in finalizing your loan, closing, and how to prepare.

This step covers:

- **Finalizing your loan**
- **Closing**

Finalizing your loan

You'll learn:

How to prepare for closing
What a deed and title are, and why they're important
Why homeowners insurance is not optional

Buying a home is likely one of the biggest purchases you'll make. So, it makes sense that you'll have several items to check off leading up to closing. This includes activities like getting **homeowners insurance**, scheduling your settlement, and taking the final walk-through. While it can be overwhelming, just remember what you accomplished to get to this point. You're so close to the finish line.

Prepare for closing

In the time leading up to closing, you'll probably talk to your real estate agent and **lender** more often. You'll need to confirm your closing date and location with your lender, real estate agent, and closing agent. Depending on your jurisdiction, your closing agent may be a **title company**, attorney, **escrow** company, or lender, and they will ensure that your documents are ready. Your real estate agent will help calm your nerves and make sure to resolve any remaining issues with the house. Your lender will finalize any outstanding paperwork for your **mortgage** application and make sure the money for your mortgage settlement is available and closing funds are accessible so you can close on time. Remember, **closing costs** include lender fees, title and settlement fees, possible legal fees (some states require a real estate attorney), taxes, and insurance. Make sure to get your expected payment amounts in writing from all parties.

> **You'll need to confirm your closing date and location with your lender, real estate agent, and closing agent.**

Now is not the time to open new credit card accounts, buy a car, or do anything that could negatively affect your **credit score**. You will have to verify all your outstanding debt at closing, and new debt can jeopardize your ability to close the loan. The lender also may review your credit one last time before lending you the money. Think of it this way—the money isn't guaranteed until it's in your hands.

Homeowners Insurance:
Covers a home's structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Title Company:
An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

Escrow:
An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

Select a title company

Before you close, you'll need to select a title company. The **title company** will run a **title search** on the property to determine legal ownership, including any outstanding claims or **liens** on the property. Then, they'll issue the **title insurance** for that property. If you require **mortgage insurance** as part of the terms of your loan, your lender will typically get this for you. Your title company may also handle the distribution of money, so every party gets the funds they need to complete the sale.

Obtain your deed and title

A **deed** is a physical, legal document that proves your property ownership and property rights. Both you, the homebuyer, and the home seller need to sign the deed at closing. A title gives you the right of ownership to the property. You need a deed to transfer the title from the seller to you. But how do you get the deed? That's where your title company enters. They will do a title search to make sure the home seller has a right to sell the home and transfer ownership.

The title company will also check to make sure there are no liens (i.e., claims involving the property). If a lien, such as another mortgage on the house, exists, the home seller must pay it off at settlement. If it's good to go, then the seller will transfer the title to you at closing, and your lender will file the deed for recording with the appropriate county office. It's important to check with the title company a few weeks after closing to make sure the county office officially recorded the deed. If it was not recorded, check with your lender about the deed's status.

Purchase homeowners insurance

Homeowners insurance isn't a maybe—it's a must. Most lenders require that you purchase homeowners insurance. If you don't, they won't lend you money. Typically, lenders will want you to take out a policy that covers the full or fair value of the property (at least your purchase price). Depending on your policy, your insurance may cover the destruction or damage to the home's interior and exterior in the case of a fire, hurricane, vandalism, or other disaster.

(...cont'd)

Mortgage:
A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Closing Costs:
Various fees required to conclude a real estate transaction.

Closing Date:
In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Credit Score:
A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

Title Company:
An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

Title Search:
A process whereby the title company retrieves and examines public records that document the history of a property to confirm its legal ownership.

Lien:
A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.

Title Insurance:
Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.

Your insurance may cover destruction or damage due to:

- Fire
- Hurricane
- Vandalism
- Other disaster

(...cont'd)

Mortgage Insurance (MI):
Insurance that protects the mortgage company against losses caused by a homeowner's default on a mortgage loan. Mortgage insurance (or MI) typically is required if the homeowner's down payment is less than 20% of the purchase price.

Deed:
A legal document under which ownership of a property is conveyed.

Keep in mind that most homeowners insurance policies do not usually cover the damage incurred from flooding or earthquakes; those events are usually covered under separate policies. It's definitely wise to ask what is specifically covered. Your lender will always require that you maintain at least a minimal level of coverage, but you may want to add more, depending on your needs. It's important to shop around for rates and coverage from a few different insurers. A great place to start is with insurance companies where you already have policies. Many insurance companies offer discounts when you bundle products, like auto and homeowners insurance. When you close on your home, you will need to provide proof of homeowners insurance.

Take your final home walk-through

Before your final closing date, you'll want to do one last walk-through. Your real estate agent will set up a time with the home seller for you to visit the home and make sure it's in the condition you agreed to at the time of the purchase. You'll want to confirm that the seller took care of all the repairs you discussed during the sales negotiations and that the home didn't incur any additional damage after the first home inspection.

Closing

You'll learn:

- What a title company does
- What documents you'll need to sign
- What you'll need to bring with you to closing

This is it. You're buying a house! This is a huge accomplishment! You should be very proud. Now, let's talk about what happens to ensure that the house legally becomes yours. During the closing, you'll have to sign several settlement documents and provide funds for the home purchase. Your lender should wire funds for the loan to the closing agent to disperse. You may also need to bring along a cashier's check for an out-of-pocket **down payment** or any costs the loan doesn't cover. Your lender and closing agent will explain where all the money goes, so don't be afraid to ask. The seller will transfer ownership to you, and you'll officially become a homeowner. Here's what you can expect during the closing:

Consider an eMortgage if available

Although the electronic closings (eClosing) segment is relatively new and small in the mortgage industry, it is growing. If your lender offers eClosings, you may avoid physically meeting in person to close your loan, and instead close electronically via an audiovisual connection (e.g., Zoom, Skype, or FaceTime). So, when you sign documents for your loan, you're signing electronic documents, such as a PDF, instead of paper documents. In addition to reducing paper, an **eClosing** makes it easier to review your documents prior to closing, which allows you to ask questions, resolve errors, and avoid delays. Completing either some or all closing documents electronically can save you time.

Sign & notarize paperwork

Expect a considerable number of documents to sign during closing. While you may be tempted to sign them without reading them thoroughly, it's extremely important to understand what the documents imply and to know that each is legally binding. It's also imperative to check for accuracy. For example, look for the spelling of your name, loan terms (e.g., rate, term, payment), and closing costs.

Down Payment:
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

eClosing:
An eClosing is the act of closing a mortgage loan electronically. This occurs through a secure digital environment where some or all of the closing documents are accessed and executed electronically. This can be a hybrid process in which certain key documents, such as the promissory note and security instrument, are printed to paper and wet-signed, while other documents are signed electronically. eClosings result in eMortgages only if the promissory note is signed electronically.

Some of the documents you'll sign will include:

1. **Closing disclosure**
   You will have received a copy of this before closing and another copy at closing. The disclosure covers all the details of your loan.
2. **Loan application**
   The loan application contains key details about your finances and should be reviewed again for accuracy.
3. **Mortgage note (or promissory note)**
   The note represents your commitment to pay the money back.
4. **Deed of trust**
   The deed provides security for the loan. It uses the house you're buying as collateral, which means if you default on mortgage payments, the lender can foreclose on the house.

5. **Title**
   The title records your right to the home—technically, you don't have full ownership until you pay 100% of the loan back.

6. **Deed**
   A public document that shows the transfer of property ownership from the seller to you.

7. **Affidavits**
   Affidavits are legally binding documents that you sign to indicate that all the information you're providing is accurate.

8. **Initial escrow disclosure**
   A document required by federal law (if you are creating an escrow account) that accounts for financial obligations that extend beyond the loan itself.

9. **Transfer tax declaration (if applicable)**
   A form that applies to property transfer taxes that may be required in some cities, counties, and states.

10. **Certificate of occupancy (if newly constructed home)**
    The certification indicates that the house is in compliance with building codes, and it is suitable for occupancy.

Homeownership transfers to buyer

Closing day is when the official transfer of homeownership from the home seller to you, the homebuyer, begins. If you're closing in person, you can expect a representative from the closing agent to guide you as you sign your paperwork. Depending on the state you live in, a real estate attorney and/or notary may be present. Before you arrive, make sure you bring items that are necessary for the closing, such as your photo ID, a cashier's check, and whatever else your lender or closing agent suggests.

Moving to-dos

Here we are! The moment you've worked toward. It's time to celebrate as you prepare to move into your new home. Moving can be just as overwhelming as the homebuying process.

Consider the following activities prior to closing day:

If you're renting, give your rental management company notice as soon as possible.

Landlords and rental management companies typically require at least a 30-day notice to vacate depending on your lease. Usually, if the notice is less than that, you could lose your security deposit and face other penalties, depending on the terms of your lease.

If needed, schedule a moving company or truck.

Your real estate agent may know reputable moving companies, or you could ask around. It's important to talk to a few companies and get different estimates. If you don't think you have enough things to move to require professional movers, you might still need a moving truck. Regardless, shop around to find the most cost-effective option.

Turn on the utilities.

You may need to immediately transfer utilities like gas, electric, water, and sewage to your name. Other utilities, such as garbage collection, cable, and internet, can wait until your official move, but make sure to schedule start dates for these items ahead of time.