

Understanding The Closing Process

Skilled Professionals Work Behind the Scenes to Make Sure Everything Runs Smoothly

By Michael A. Holden

When purchasing a home, there are so many details to take care of that the last thing you need to worry about is a problem with your closing. Hopefully, you've hired skilled professionals to handle the details and make sure everything runs smoothly.

The behind-the-scenes work begins as soon as your offer is accepted by the seller, which can be anywhere from 30 days to three months before the closing. Here's how the settlement process typically works.

If you are working with a real estate agent, he or she will place an order with a "settlement agent" as soon as your sales contract is accepted. Depending on what part of the country you live in, the settlement agent can be a title company, an escrow company, or a settlement attorney. Most homebuyers rely on their real estate agent to select a settlement agent—someone they work with regularly and know to be professional, reliable and efficient. However, homebuyers can choose their own settlement agent if they wish.

The settlement agent will oversee the closing process and make sure everything happens in the right order and on time, without unnecessary delays or glitches.

First, a contract or escrow agreement is drawn up, which the settlement agent reviews for completeness and accuracy. The agent will also put your deposit into an escrow account, where the funds will remain until the time of closing.

Next the preliminary title work is done. The title company conducts an exhaustive search of the public records to make sure there are no issues with the title such as liens against the property, utility easements, etc. If a problem is discovered, most often your title agent will take care of it without you even knowing about it. After the title is cleared, they can provide title insurance.

There are two kinds of title insurance coverage—a Loan Policy, which covers the lender for the amount of the mortgage loan, and an Owner's Policy, which covers the homebuyer for the amount of the purchase price. If you are obtaining a loan, the lender will require that you purchase a Loan Policy. However, it only protects the lender. We always recommend you obtain an Owner's Policy to protect your investment. Who pays for the Owner's Policy varies from state to state, so ask your settlement agent about it.

Once the preliminary title work is complete, the title company will issue a title commitment. Meanwhile, the settlement agent is simultaneously coordinating other

important details. If the contract calls for a prior mortgage to be paid off, the agent will order payoff figures from the existing lender. If the buyer is assuming the loan, an assumption package will be ordered showing the current status of the loan. Other tasks typically include ordering property inspections, surveys, and termite reports. Each closing is unique, which is why it requires a skilled professional to oversee the process.

Any problems or discrepancies discovered by the settlement agent are reported to the appropriate parties so that they can be corrected. The agent's role is to facilitate cooperation, coordination, and compliance between all of the settlement service providers.

If you are obtaining a loan, your lender has three days from the time of the loan application to provide you with a Good Faith Estimate of your loan costs. Keep in mind this is just an estimate. The final costs will be outlined on the HUD-1 Settlement Statement prepared by your settlement agent. It is usually provided to the buyer three days prior to closing. Items shown on a typical HUD-1 include costs paid at closing as well as pre-paid costs such as your earnest money deposit or loan application fee.

As closing day approaches, the settlement agent orders any updated information that may be required. Once the settlement agent is satisfied that the paperwork is in order, he or she confirms the date, time, and location of the closing with all the parties involved.

On closing day, all of the behind-the-scenes work is done. While you've been busy packing, ordering utilities and coordinating the movers, the closing process has been happening behind the scenes so that your new home is ready for you to move in.

Michael Holden
Dakota Homestead Title Insurance Company
315 S. Phillips Ave
Sioux Falls, SD 57104
Ph 605-336-0388 fax 605-336-5649