

# **WILLIAM DIFFY'S LIBRARY**

## **Closing on a House**

### **Stay Calm During This Stressful Situation**

Many of the reasons for a delayed closing can be avoided if you know what to watch out for in advance.

Closing delays often have to do with the buyer's new home loan. For example, lenders require that buyers have a homeowner's insurance policy in effect at closing. If this critical item is overlooked, closing will have to be postponed until the buyers have their insurance in place.

A closing could be late if the funding check from the buyer's lender isn't issued on time. This can happen if you don't sign your loan documents promptly—a situation over which you have control. A circumstance over which you have little control is a delay due to lender backlog. This will occur when there's a lot of refinancing and/or a busy real estate market. If you know the lender is busy, try to get all your loan related paperwork in early.

Sometimes work on the property needs to be completed before the closing can take place. For example, if the lender requires that the termite work be done and the work is delayed for some reason, your closing will have to be postponed. If you're buying a new construction and the completion date is held up, your closing will be delayed.

Sometimes the lender imposes last minute additional requirements, such as a review appraisal of the property or a further explanation of a credit defect. When your loan is approved, be sure to ask if there are any loan conditions that must be met before closing. If there are, get these resolved as soon as possible.

When two home sales are closing concurrently, a delay in one can cause a delay in the other. This can happen if you're buying a home from a seller who's buying another home. If the seller listed his home contingent upon a simultaneous close with the home he's purchasing and that closing is delayed then your closing will also be delayed.

The closing can't take place without the buyer's money for the down payment and closing costs. Buyers often have money wired from various accounts. If wire orders aren't placed early enough or if wire routing instructions aren't correct, the closing will be delayed.

**FIRST-TIME TIP:** The first thing to do when you hear that your closing isn't going as scheduled is to stay calm. Be sure that your agent informs all other parties involved in the transaction that there is an unavoidable delay. Get a written extension of the closing if it will be postponed for longer than 24 hours. The last thing you should do, no matter how frustrated you may feel, is call the loan processor directly to complain. Let your loan agent handle the problem if it's related to your new loan.

**THE CLOSING:** Ideally, buyers shouldn't take possession of their new homes until the sale has closed. Whenever possible, postpone the move until the last-minute problem has been sorted out. In busy real estate markets, it may not be possible to reschedule professional movers late in the game. As a last resort, the buyer can ask the seller for permission to occupy the property before the closing and, if the seller is agreeable, an addendum should be drawn up indicating the terms and conditions under which the buyer can move in early.

An interim occupancy agreement should also be signed by the buyer and seller, and the buyer's personal property and liability insurance should be in effect as of the date of occupancy.

### **Ready To Close? Tips To Make Your Closing Easier Getting in ahead of the closing**

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### **Walking through the last step**

A final walk-through provision gives the buyers the right to inspect the property prior to closing. This allows the buyers an opportunity to confirm that the property is in the same general condition as it was when they agreed to purchase it. A walk-through can also be used for the purpose of assuring that the sellers have completed repairs they agreed to do, or that any construction work has been completed.

### **Take the time for a walk-through**

Not all buyers complete a final walk-through inspection. Some operate on good faith that the sellers will comply with the terms of the contract and deliver a house that has been maintained, is free of debris and broom-clean. But if you've ever heard a horror story of buyers taking possession of a house that's a shambles, you'll want to exercise your right to do a final inspection.

### **Close your eyes and breathe**

The first thing to do when you hear that your closing isn't going as scheduled is to stay calm. Be sure that your agent informs all parties involved in the transaction that there is an unavoidable delay. Get a written extension of the closing if it will be postponed for longer than 24 hours. The last thing you should do, no matter how frustrated you feel, is call the loan processor directly to complain. Let your loan agent handle the problem if it's related to your loan.

### **The Final Walk-Through: Not A Way Out Of A Contract**

A buyer completes a final walk-through inspection before closing to confirm that the property is in substantially the same condition as it was when the purchase contract was negotiated. If the seller agreed to complete repairs as a part of the purchase agreement, a final inspection enables the buyers to verify that the work has been done.

The final walk-through also gives the buyers the opportunity to confirm that the seller's personal belongings and debris are being removed from the property; that tenants have vacated; and that appliances the seller agreed to leave with the property haven't been moved out by accident.

The final inspection is usually a buyer's right but it's usually not a contingency in the contract. This means that buyers can't use the walk-through as a means of backing out of the contract at the last minute.

The walk-through should be completed far enough in advance so that the sellers have time to remedy any problems. Ideally the final inspection should be done within 7 days of closing.

New homes are often sold before they're completed. During the final walk-through of such a house, you should make a list (called a "punch list") of finishing details the builder still needs to complete. It's wise to have the builder sign a copy of your "punch list." If the list is short, the builder probably won't have trouble getting the work done by closing. If a substantial amount of work remains, you may want to delay closing until the work is done. Your lender may actually require this.

Sometimes a new home is ready to occupy but a few items are unfinished that can't be done before closing. Ask the builder to give you a written commitment that states when these items will be completed.

**FIRST-TIME TIP:** In addition to completing a final walk-through inspection, it's a good idea to schedule a meeting with the seller so that you can learn some of the idiosyncrasies of your new home before you move in. Find out how to operate the irrigation, security and lighting systems. Ask the seller to leave any operating manuals and warranties for you.

Inquire about routine maintenance items the sellers feel are necessary to keep the house in top condition. How often do gutters need cleaning? Are there any drains that need to be cleaned out periodically? Are there areas of the roof or around the foundation that require caulking? Ask the sellers to leave you the names and phone numbers of the tradespeople they have used to maintain the house in the past. Such recommendations are valuable because these people have worked on the house and are familiar with it. Buyers of new homes should ask the builder who they should call when they find defects that need correcting. If you're moving into a completely new community, ask the sellers to introduce you to a few of your new neighbors.

If you don't have an opportunity to meet with the sellers personally before you take possession, ask them to leave you a note detailing any relevant information.

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## **Who Pays For Closing Costs? Buyers' And Sellers' Responsibilities**

By Dian Hymer

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). Your real estate agent or mortgage broker can tell you which fees are customarily paid for by the buyer in your area and how much they'll cost.

Sellers' closing costs typically include: loan payoff fees; the real estate commission (in some cases, a portion of this may be paid by the buyer); 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. Sellers can get an accounting of the closing costs they're likely to pay from their listing agent.

**FIRST-TIME TIP:** 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. If you don't plan to stay in the home for more than a few years, it may be cheaper in the long run to take a no-point loan and pay the higher interest rate.

Most lenders allow parents to give money to their children to use for a home purchase as long as the parents are willing to stipulate that the money doesn't have to be repaid. However, lenders usually require that the borrowers have some of their own money invested in the property. For example, a lender would probably approve a loan for buyers with good credit if they had enough of their own money for a 5 or 10 percent cash down payment and gift money from their parents for the closing costs. Also, there are loan programs for low-cash down buyers that allow the buyer to finance some of the closing costs.

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 is, 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.

**THE CLOSING:** Buyers who are competing with other buyers may want to increase their offer price by \$5,000 to offset their request for a \$5,000 credit.