

4 Things You Need to Know at Closing

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Taos real estate transactions can prove to be a unique learning experience and each one is different. Here are 4 key need-to-knows to help you avoid getting a nasty surprise at the closing table.

Read my lips: no new bills (or other financial blips). Most savvy buyers know better than to run out and buy a car while they're trying to buy a home. But you'd be surprised at how many don't think twice before opening new credit accounts to buy appliances or finance the kitchen remodeling work they plan to have done as soon as they get the keys to the place. Many a lender will run a quick credit check right before closing, mostly so they can detect whether your bills – your monthly obligations – have increased to a point that pushes your debt-to-income ratio too high to qualify for the home, or would make it tough for you to pay your new mortgage.

If your escrow runs 45, 60 or 90 days (or longer) as they commonly do in short sales and sales of bank owned homes, new accounts can certainly show up on your credit report in that time frame, endangering the deal and generating a surprise "no deal" from your lender just when you thought you'd be getting a set of closing docs to sign.

Also, some lenders conduct a last-minute check of borrowers bank account statements. Of course they want to make sure that you have the cash you need to seal the deal. But you might be surprised to learn that lenders also want to be sure that there are no unexplained, major deposits to your account, as well. They know some borrowers are inclined to borrow fistfuls of dollars from family and friends just before closing in an effort to scrape together the cash they need to close their home purchase by any means necessary.

And, unless the money is a lender-approved gift, that's not allowed! (Why? The mortgage lender wants to avoid the friend or relative later saying they "own" part of the house, and also doesn't want your obligation to repay a "friend-and-family" loan to interfere with your ability to repay your new home loan!)

If you have any large deposits (other than your normal income) come in just before or during escrow, be prepared to both explain them and document their source.

Make full disclosure when you first apply for your mortgage or short sale. Today's loan underwriters are notorious for being sticklers about verifying and re-verifying the facts on your loan application. And as mortgage guidelines have tightened, lenders have also tightened up the underwriting process, creating a virtual gauntlet of review after review, underwriter after underwriter that you have to get past in order to close your deal. The most critical one? The funder – it is this underwriter's job to give the thumbs up (or down) on wiring your mortgage money into escrow.

Funders are the toughest to get past, understandably, because the buck stops with them when it comes to their employer's issuance of tens, even hundreds of millions of dollars of mortgage money every year. So, they want to be sure every last one of your loan qualifying i's are dotted and t's crossed – up to the very last possible moment before they green-light the disbursement. They have the right – scratch that – the responsibility to re-check your credit, assets, even your employment at the last minute, and they take this responsibility very seriously.

And on a short sale, the pre-closing title check can reveal legal judgments and liens against the seller that have been placed on the property up to the day of closing.

I've seen deals fall apart or come to the brink of failure the day or so before they were supposed to close because a buyer had lost a job, turned out to actually be legally married (the divorce they'd put on the application was not yet final), or a new collection account had surfaced. I recently saw a short sale nearly cancelled when a new collection account of the seller's was filed as a lien on the house. Once, I even saw a deal killed beyond salvation when a last minute credit re-check surfaced a social security number flag that revealed one buyer was not in the country legally!

To avoid these sorts of last minute surprises, be 100 percent honest with your real estate and mortgage agents at the beginning of your homebuying (or selling) process about any and every area of your life that corresponds to a mortgage or short sale application question, even before you complete the application – there's almost no such thing as an overshare at that stage. That puts them in a position to help you avoid closing table drama from the jump, even if it means they advise you to stay in your job, settle some bills or buy the home on your own, rather than with your spouse.

Watch the calendar closely. Buyers who originally were pre-approved for their mortgage many moons before they find the right property should obtain updated estimates of their mortgage payments and the cash they will need to close their purchase as their house hunting period goes on, and especially once they have a firm closing date estimate. Mortgage interest rates can change dramatically over a period of a few months, and closing costs vary widely based on things as seemingly minor as whether your transaction closes at the beginning or the end of the month.

To avoid getting to closing and realizing that you have to come up with an extra few weeks' worth of prepaid mortgage interest because your closing date changed, make sure your real estate and mortgage brokers are in close communication, and ask them to keep you apprised of how any closing date changes will impact the size of the check you'll have to write to close the deal. And if you're buying a property that is a short sale or foreclosure, ask them to give you this briefing as soon as possible (and as frequently as possible!) in the transaction so that you can prepare a little cushion of extra cash in case closing is delayed for reasons beyond your control (which happens very frequently in these sorts of sales).

Obtain and review your closing documents in advance. I used to give this advice mostly to buyers, urging them to ask their agent and mortgage broker to provide them with their loan and title documents at least a day or so in advance – earlier, if possible. If you have to sign 300 pages at the closing table and you know your keys and moving plans hang in the balance, the chances you'll be scrutinizing every line are pretty slim – and if you do happen to catch an error, the time it will take the lender to revise and reissue a set of papers can throw your moving calendar entirely out of whack.

The best practice is to get these documents in advance, so you can check on line items like the interest rate and monthly payment in the comfort of your own home or office, ask questions of your representatives and initiate any corrections that need to be made without disrupting the plans for signing and closing.

And this applies to sellers, too – even though buyers have a much higher volume of paperwork to get through at closing (and errors can be costly), closing doc errors occasionally arise that have a serious impact on sellers, as well. I was once asked for advice in a situation where the seller owned two neighboring parcels of land, and the title paperwork for the sale of one erroneously included the other one, too! It took a boatload of high-drama legal wrangling to get the mistake corrected, and get the sellers' other lot back.

