What to Expect in the Closing Process

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SPEAKERS

Introduction, Wil, Neil, Terri

T

Terri 00:00

Welcome to the Making Money Personal Podcast. In today's episode Wil and Terri will be discussing the final steps of home buying with attorney Neil Gauthier of Gauthier and MacMartin. If you are a first time homebuyer or ready to make your next move, we invite you to stay tuned.

I

Introduction 00:22

You're listening to Triangle's Making Money Personal Podcast, where we engage in real talk about financial matters that affect our community. Today's episode is sponsored by Triangle Credit Union recently voted Best Credit Union in New Hampshire. Triangle Credit Union, a Better Way to Bank.

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Terri 00:39

Thanks for joining us, everyone. This is the fourth episode in our Mortgage Madness series. Joining us in the studio is attorney Neil Gauthier of Gauthier and MacMartin. Welcome, Neil.

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Neil 00:50

Thank you, Terri. Nice to meet you.

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Terri 00:52

So let's jump right into this. I'm about to be a new homeowner, I found a new house and I've made an offer and it's been accepted. financing is all in order for the mortgage. And I'm actually about to get the keys to the front door. So can you walk us through what we should be expecting at the closing process?

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Neil 01:10

Well, Terri, what people should expect as a very joyous occasion, because let's be honest, you're purchasing a home, it's probably the largest purchase you'll ever make in your life. And everything should be running smoothly. So what I plan on doing is going over things that you could expect to see at a closing. Now when you sit down, but the most important thing from where I sit is that the individuals who are borrowing money should feel totally comfortable with signing the documents. So what I attempt to do is to break down legal documents into very common or layman's language so that when they leave, I expect the borrowers to be very well aware of what they've signed, I always invite people to ask questions, I can't impress upon people enough that if you have a question you should ask it. There are no bad questions. And I certainly wouldn't want anybody to leave having signed a document they don't completely understand. And they shouldn't be intimidated by the process. Because in my case, I've been doing real estate closing transactions for 40 years, I feel very comfortable with it. It's what I do for a living in turn. The people who are there borrowing money sometimes feel intimidated, because they don't understand the process. But in turn, you have to remember that those people could run circles around me, because I don't know anything about what they do for a living. So it's just kind of a reversal enrolls, but it's important that you ask questions. And if you feel very comfortable as as it happens, I'll assume at this point, we're at the table because you've already picked your lender. Is that correct? Right. Okay, you picked your lender. And let me just go through some of the documents that you can expect, some of the questions that will arise and some of the terms that will arise so you feel comfortable when all of a sudden done. The first item that you are going be addressing as a closing disclosure, and this is what we used to refer to as the old settlement statement. Now under present banking laws or credit union regulations, you will receive this document at least three days prior to closing. So you'll have a chance to look at it and review. And if you have any questions you should call your mortgage loan officer and have it explained to you, but when you sit at the table, it will it will be reviewed with you and it covers really very basic information starting with the loan amount, the interest rate, the principal and interest payment in terms of dollars that you'll be paying, and whether or not you have escrows, escrows are monies that are paid in monthly to address fixed costs and a mortgage such as taxes and insurance. Most lenders require at least taxes be escrowed. And what that is, is a calculation of the entire tax bill divided by 12. So that each month you're paying one 12th of the tax bill. So when the tax bills become available for payment, you would simply send those along, in most cases, the town or city in which your property is located, will receive it from the tax collector, and the monies will be there to pay the bill. So you will not get a surprise or an expectation of paying six months of taxes all at once. And I think it's advisable that you do that, and they've made it mandatory in most cases in terms of taxes, homeowner's insurance is addressed the same way a few lenders will not require you to have homeowner's insurance, I know that Triangle Credit Union does not because they would like to make it as easy as possible for their members to be able to have packaged policies with their automobile insurance and their homeowners insurance policies combined. And sometimes if you require an escrow for taxes, it becomes confusing to the insurance agent because he or she is splitting up the policies in terms of cars versus homes. But here at Triangle Credit Union, they do not require you to escrow for insurance in most cases. And then finally, you'll be told how much to bring the closing. And hopefully you've received that before you sat down at the closing. Because otherwise, what a surprise.

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Terri 05:33

Shocker.

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Neil 05:34

Yeah, okay. The second page of the closing disclosure and I say this for the benefit of those of you who will have received this will have the your closing costs, and usually it will address such items as your underwriting fees, the appraisal fees, credit report, flood certification, title insurance, legal fees, the recording fees at the registry of deeds for the deed and the mortgage, because you will be taking title to property with a deed. And in turn, you'll be conveying a mortgage to the lender to secure the note that you've just borrowed. So that will be recorded at the registry as well. A major expensive closing has nothing to do with the attorney or the closing agent, or with the credit union, so you can't blame them for this. It's a tax issue. And in the state of New Hampshire, we have what is called transfer tax stamps. And that is basically a sales tax on real estate and it is set at one and a half percent of the purchase price. So think of it this way, if you purchase a home for $100,000. Not likely but possible. Your total tax stamp on that owed to the state is $1,500. In turn $200,000 home is a $3,000 tax stamp that is owed. And that is split 50/50 between the buyer and the seller. So that's a major cost and it applies and all purchases of homes, of course does not apply in refinances, it will also recite the escrow that you're paying, because to get into the proper billing cycles. In all likelihood, the lender will have to collect two months of taxes to get into the proper billing cycle so that when the bill becomes available, there's enough money there to pay that bill. And the same will apply for insurance at the closing table, they usually collect two months of homeowners insurance, so that as you pay each month, at the end of the cycle of 12 months or one year, you'll have enough money to pay the renewal premium that's going to be do within the settlement statement. There's a question of whether or not buyers should have owner's title insurance. Now you'll notice that when you apply for a loan, you're required to purchase lender's title insurance. It's that is a universal cost that without exception, it is always required. What that does is it protects the lender against any claims that might arise as a result of a defect in the title. And the lender wants to be sure of that, because they don't want to have to worry about having defective title should the worst happen. And they have to own the property themselves. But in turn, if you're the buyer, you don't have title insurance, but you can purchase title insurance, all right, and it's called an owner's title insurance policy. All right. And so that is basically those that's kind of addressing the closing costs that you would otherwise incur. Now, there'll be preparations that occurs well, and that is for taxes, taxes in the state of New Hampshire, run from April 1 to march 31. So if you are paying the June tax bill, you're really paying for the period starting April 1 through September 30. So if you were to close at the end of June, what would happen is you would probably do three months of taxes as a buyer, because the seller will pay the June tax, but usually before the closing, and we make that adjustment, but you're never going to end up as a buyer paying for sellers, taxes, they'll be an adjustment made and will be accurate. And it will take here all the taxes that you owe, but not the taxes that the seller owes. So you don't have to be concerned about that happening.

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Terri 09:29

Okay,Good.

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Neil 09:29

All right. The primary documents in the closing are the note and the mortgage. Okay, the note is basically the promise to repay. And the promise to repay has very basic information in it, it will have your name, it will have the lenders name it will have the amount that you're borrowing, it will have the date of the first payment, the date of last payment via 20, 30 or 40 year loan. And it will set up the payment that you are obligated to make. Now there are certain safeguards in those mortgages not only for the lender, but for the buyers as well. Residential loans typically don't have what is called an assumption agreement, which means they're not assumable. So if you sell the property, you're expected to pay off the balance of the loan. There was a time many years ago when loans were assumable, the problem with that arose when there were banking crises in the 80s and 90s. And people were losing their homes. So they would allow people to purchase their homes, and people who would buy would assume the loans, but the person selling would not get a release of liability. So they'd move on with their life and move to Arizona. And then two months later, get a notice that the new buyers hadn't made the mortgage payment, they'd be asked to make payments. We don't have that problem anymore. Because when you buy a house, you have an obligation when you sell the house the obligations to pay the loan back. The other feature that is now existing in all residential loans is they don't have what is called demand features. So if you purchase a home, and you purchase it at a fixed rate for a fixed period of time, and you have a great rate rates historically now are very low. If there was ever a time to purchase a home now is it. My history goes back so far, unfortunately, that in the early 80s, I was closing loans up for about an 18 month period at between 17 and 20%. Now you can only imagine the chaos that existed in those days. Today, if you apply for a loan, you can lock in your rate, which is a great benefit, though. So you lock in the rate. And they'll tell you that you have a rate lock for 60 or 90 days, during which time you can close and they can't change the rate on you. While in days passed when rates were very high because of inflation. And that was in the 80s you could not close at the rate on the date that you signed any contracts or applications you have to close at the interest rate on the date of the closing. And so if you were a buyer and you bought property and you were to close 60 days later, rates were rising so quickly that you could find yourself on the date of closing with interest rates on your new mortgage as high as two or 3% higher than when you applied for the loan. And because you couldn't lock in when you applied for the loan, you have to close that higher rate, which would result in many closings never occurring.

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Wil 12:43

Sorry to interrupt, I was gonna say that could possibly affect the bank or the lender changing their mind on whether or not to lend this money.

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Neil 12:52

Exactly because the buyer would no longer qualify at the higher interest rate. But in this day and age, there are now lock in rates. And there are no demand provisions as long as you make your payments. If you got a great rate today and you see rates rise to 7, 8, 9 percent in the future, you don't have to worry because you've locked in your in for 30 years, as long as you continue making your payments, there was nothing the bank can do or the credit union can do to call your loan in early, which is a great advantage. The other thing you should know is there are no prepayment penalties on regular residential mortgage loans, I should also tell you that you'll be it will be disclosed to you at closing as to what the total amount of payments you will make over the course of alone are what the interest will be in total in dollar terms and what the total will be in terms of percentage. Now at rates being what they are now, the payback on a 30 year loan average is between 90% to 110% of interest. So if you borrow 100,000 in 30 years with today's rates, you'd probably pay back 90% of interest, but think of it this way. 30 years, 90%. That averages up to 3%. Very low rate, you get the benefit of deduction. And if you say to yourself, Wow, that's a lot of dollars. What will $1 be worth in 30 years is the question.

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Wil 14:23
This is great information.

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Neil 14:24
I do remember the five cent Hershey bars.

T

Terri 14:29
Good standard.

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Neil 14:30
Exactly. So that really covers the closing the closing disclosure. The note itself, as really just covers the basic items, most notes are either are fixed, many more now are adjustable, people are getting nervous about getting in at the bottom, and they don't know if they're, they're going to be in the house a long time. So adjustable rates are becoming more popular Triangle has a tremendous product. If you think you can't get into a house because you just can't afford it. They've just offered a new rate program that has a really tremendous five year introductory rate, and adjusts every five years and they've even allowed you to stretch the maturity date out for 40 years, they had 30 year loans, and now they have 40 year loans. And when you look at it, it you might say to yourself, Well, I don't want to own money for 40 years. And I understand that. But if it's your opportunity to get into a house for the first time, this is it, your payments will be very low. And remember this, that there's no prepayment penalty. So if you want to shorten the term, and you can self discipline, making payments, additional payments to reduce the principal, you can easily knock 10 years off that loans make a 30 year loan, once you get your bearings into your new home, you get reestablished. Your job settles down, you know what your situation is.

But it's a tremendous product. I just throw it out there because I don't know if anybody else is offering it right now. I'd like to move on to the mortgage if you don't mind right now.

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Terri 16:07

Yeah, absolutely.

N

Neil 16:07

Okay. So the mortgage that you'll be asked to sign is basically a security interest in your home to safeguard the credit union in the event that you should default in the payment of the note. Now, hopefully, that will never happen. But it does occasionally happen for unknown for unforeseen circumstances. And the mortgage basically recites the following information, I can thumbnail this thing very quickly. It will have the date you close, it will have your name as the borrower and the owner of the property that will then name the lender, the address of the lender, the amount that you're borrowing, and it will have the maturity date, which is the date of the very last payment scheduled to occur. It will then have the legal description on the property, I should tell you that when you are at a closing, if there's some concern about what the property looks like, my safeguard on this is whenever I close a transaction, I always bring a copy of a plan from the registry of deeds, which shows the property you're purchasing so you can see it with your own eyes. I don't know that everybody does that. But I do it because I've seen instances of where people buy property and unfortunately, will take a large subdivision and the developer mistakenly conveys the wrong lot. And it just carries on and on and on. Because nobody bothers to look at the lot on the plan. So we bring the we bring it. And you can also check that by looking at the tax maps and but just make sure you have the right address. And if you've got your papers out on this one, that's one thing you should pay attention to is that the address on the properties correct and zip code is correct, because you certainly just don't want to have that carry on. Because once a mistake like that starts it never ends or if it ends, it takes a lot of work to unwind. The promises in the mortgage are basically six in number you're going to see nine pages that are going to glaze your eyes over. And it's all legalese but when all is said and done, your standard residential mortgage has the following promises. You promised to make timely payments of principal and interest. That's your normal monthly payment. You promise to pay your tax bills and your insurance obligations in a timely fashion taxes twice a year, but you'll have the money in your escrow account. Because remember, you're setting aside monies every month to make that lump sum payment every six month. And insurance. You may not be but you could be escrowing for that. But if you aren't, you promise to make those premium payments when the bills become available. All right. The other promises a pretty basic, they're asking you to make sure that you keep the property in good repair, you also promise not to store hazardous waste material at the site. Okay, and you also promise to initially occupy the property if it is a residential homes that you'll initially occupy the properties as your primary dwelling, you have typically an obligation to stay there one year, and after one year, you can rent the property out, you can convert your home to residential income or investment property. And there's no prohibition against that if you do it, all you need to do is continue making your payment, you do not have to notify anyone about it. But if you choose to do that, that's fine. But you can safely assume that after a year, you can rent it out if you want. There were a few affidavits, you'll be asked to sign as well. Two of them relate to title insurance. Even if you choose not to buy the owners policy, you'll be required to sign these. And they will ask such questions as usually they ask it of the seller, but you as the buyer are the recipient of the information together with the title insurance company. And you'll want to listen to this being said to you. The first promise is that if you're buying property, I'm assuming you've had a final walkthrough that morning, never buy a property and waive your right to have a walkthrough if you do that you're risking a couple of things. And the most obvious one is damage to the property since you saw it listed and decided to buy it. And if you don't have that final walkthrough, it'll create a problem after the fact. And you'll be quite unhappy. So you don't want to do that. And secondly, and I have seen this recently, I've seen it many times in my in my career, but only recently, person bought a house seller said they'd be out in a week. Well the sellers were the sellers from hell and they didn't want to leave. And after a week they weren't gone. And after two weeks they weren't gone. So if you're buying the property, except under extreme circumstances, and unless you get advice of counsel, make sure that when you close that loan, that house is yours for occupancy. And if you have a seller who says I'll move tomorrow, I recommend this is free legal advice. I would recommend that you not listen to anyone who's encouraging you and saying, well, they'll be out tomorrow for sure. Because I've seen it too many times. And you're stuck, you have the house, you're ready to move the sellers taking their time. You just don't want to be in that situation.

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Wil 21:52

Neil. Sorry. Are you saying not to sign any documents until they are out of that house? Is that what I understood?

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Neil 21:58

Well, when you have the walkthrough before the closing, make very certain that they are out of the property when the seller show up at the closing. They should be out. And you really don't want to hear the sellers at the closing saying, We'll get the rest of it today and tomorrow. Because today and tomorrow will become next week or early next month. And you just don't want that situation.

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Terri 22:19

So you want all sets of keys.

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Neil 22:23

I would think you want them all. And I certainly would recommend to people this is more free legal advice is that if you buy a house, I know the keys are usually swapped at the closing, this is really a total option to you. But only because I've been doing this so long, I've seen so many things happen, I would recommend you change the locks. Just changed the locks. It's not an attack on the personal integrity of the seller. But you don't know who has keys to that house, the sellers may have handed them over to children, their care takers, lawns people, you never know. So change the locks and make sure you are the only one that has access to the property.

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Terri 23:05

Good points.

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Neil 23:07

All right. The other documents in a quick summary are going to ask you such things as if the lender needs you to return, or need you to resign a document because of a typographical error that was created, they'll give you a form that says Will you help us out after the fact and the reason they want you to do that is because they at one time that form did not exist. And people are peculiar at times, as you know, and they don't want to come back, the sellers will move out to California and they will not resign something that is needed by the lender. So you want to make sure you have that form signed. You'll then be restating terms that already came up, they'll be preparation of taxes agreement, you'll be signing a form that will allow you to verify your social security number so that the interest you're paying is properly reported as deductible interest. And I am just going through this very quickly, because I know you've been generous with your time here. They'll also ask you to verify one more time that it is your primary residence, they will ask you to resign a commitment letter which restates the terms of the loan, and you'll sign an application form and the application form will restate all the information you provided of a financial or employment nature. And that really takes care of all the documents you have to sign. Now, again, before you get to closing, make sure that you feel comfortable with what's going to transpire. If you are proceeding through the credit union here at

Triangle, you won't have any problems, their staff is really, totally on top of their game. And you will be well informed of what's happening. If you also go through the credit union, there are advantages to using a local lender and the advantages are you apply with someone locally, you have a local number that you can call, you are not dealing with people from out of state or out of country. And the servicing will be done locally as well. So there are so many benefits to borrowing locally that I cannot overemphasize it. Okay. And having said that, if you should have any questions whatsoever, I do not. I don't hesitate to give you my office and cell phone number and I'll also give you my email address, so that it's important that if you call I'm not going to charge you to call for a piece of advice that you want. Okay, I've been doing so long, it's part of the trade. So here it is, my office number is 603-673-7220. My cell phone number is 603-321-2472. And my email address is Neil@gauthierlaw.com. That's GAUTHIER law, LAW.com. And again, phones ringing all the time. It's what I do for a living, answer the phone, and so you're not infringing on my free time. I just assume to do things while I'm at the office then look off into space. So do give me a call.

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Wil 26:37

Alright, perfect. So we want to thank you, Neil. This was definitely an informative episode. And I think our audience is going to get a lot of information out of it. So we want to thank you again for being here.

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Neil 26:49

Well, thank you for having me.

T

Terri 26:50

Thank you, Neil.

W

Wil 26:52

This has been the Making Money Personal Podcast with Wil Infante and Terri Connolly. For more information on all of Triangle Credit Union's product and services. Feel free to visit us at TriangleCU.org if you have a question, or a subject you'd like us to cover in a future episode, we'd love to hear from you. Shoot us an email at TCUpodcast@TriangleCU.org and we'll do our best to cover it on the show. Thank you and take care.