Sorting Through the Stack of Documents in a Residential Real Estate Closing

You have found your dream home, signed a purchase agreement with the seller, and have been approved for a mortgage. Now it's time to close the deal!

The closing constitutes the completion of the real estate sale and the mortgage loan transaction. At the closing, you'll have to review and sign several documents in order to complete the entire closing process. You may be overwhelmed at the stack of documents presented to you, but you should always feel free to ask questions of the closing agent and should feel free to have an attorney present with you at the closing. A home will probably be your largest asset, and you should be comfortable signing each document pertaining to the purchase of the home. While the scope of this article is too limited to include each and every document a buyer is required to sign at closing, the major documents included in closing a real estate transaction include:

A. HUD-1 Settlement Statement. This document lists the costs and fees associated with the transaction for both the buyer and seller, including the purchase price, earnest money deposit, loan fees and costs, mortgage payoffs for the seller, commissions to realtors, title charges, escrow amounts and the amount you will need to bring to closing in order to purchase the property and close the transaction. You should have the opportunity to review the HUD statement prior to closing so that you are not caught off guard by any costs or fees set forth on the statement. Your loan officer or realtor will likely go over the HUD statement with you prior to closing. Even so, you should still review the HUD statement carefully at the closing and express any concerns and/or questions you may have.

B. Promissory Note. This document is a written agreement with your lender to repay your loan. It sets forth the loan amount, the interest rate and the payment terms. This document is secured by a mortgage on the property.

C. Mortgage. This document contains a detailed legal description of the property you are purchasing and confirms that you are pledging the property as collateral for repaying the loan. The mortgage will also contain a foreclosure provision, which provision states that in the event you do not make your loan payments as set forth in the promissory note, the lender may foreclose on the property. If the property is foreclosed upon, the lender may sell the property in order to pay off your loan.

D. Truth-in-Lending Statement. This document is often confusing for homebuyers, especially for first time homebuyers. It sets forth your loan amount, your interest rate and the annual percentage rate (APR). The APR is comprised of the quoted interest rate on the loan plus all additional service and finance charges associated with the loan, including those paid at the time of closing and those paid over the term of the loan. The APR is usually slightly higher than the note interest rate. The Truth-in-Lending statement is required by federal law and is designed to protect consumers by requiring clear disclosure of the terms and costs of the loan.

E. Escrow Statement. This document will set forth the items escrowed into your monthly mortgage payment, if you choose to escrow any items. For example, you may choose to escrow your homeowner's insurance and your county taxes. If you escrow these items, then a certain amount of your monthly payment will be placed in escrow so that the lender can pay the taxes and insurance when the same become due.

F. Sales Disclosure Form. In Indiana, this document is required to be filed any time there is a transfer of real estate and a conveyance document is filed. Thus, if a deed is recorded, then a sales disclosure form must accompany it. Although the deed transferring the property from the seller to the buyer is only executed by the seller, the sales disclosure form is signed by both the buyer and seller. The form sets forth the name, address and phone number of the buyer and seller, the legal description of the property, the contract date and the contract purchase price. The form is used by local assessing officials and the state for a variety of purposes.

G. Property Tax Exemptions Form. You should receive this document at closing, which document alerts you to the different types of property tax exemptions you could qualify for now that you have purchased a home. You should contact the county auditor's office to obtain these exemptions.

Depending on the lender and its requirements, there are often more loan documents to be executed than those I have set forth. In addition, the realtors and the title company may have several documents for you to execute.

Always make sure you understand what you are signing. It is a good idea to have an attorney review the purchase agreement between you and the seller, and it may be wise to have an attorney present with you at the closing. If you desire to bring an attorney with you to the closing, you should notify the closing agent, your lender and/or your realtor beforehand so that perhaps your attorney can review some of the closing documents prior to closing. In any event, know what you are signing before you sign it. This could save you time and money in the long run!

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