

# Understanding a CLOSING DISCLOSURE



Whether you are preparing to buy your very first home or getting ready to downsize, it's perfectly normal to have questions. According to PR Newswire, you aren't alone.

Only about one-third of non-homeowners claim to be knowledgeable about mortgages and other aspects of the purchasing process. Average home prices, wire fraud, and credit requirements for a loan are other commonly misunderstood concepts.

One of the most mysterious (and important) documents you'll come across while working with a lender is a closing disclosure or CD. In the home-buying process, knowledge is power. With that in mind, here's everything you need to know about closing disclosures.

## WHAT IS A CLOSING DISCLOSURE?

A closing disclosure (CD) is a multi-page document you'll receive from your lender before the scheduled closing of a mortgage loan. It summarizes the final costs and terms associated with the loans and the closing transaction. The CD is designed to help you understand the details of your mortgage and compare them to the loan estimate that you received earlier in the process.

In many cases, the estimate and CD will vary. This is normal, as certain costs listed on the two documents, like the price of a survey or title insurance, may be higher or lower on the closing disclosure than the lender initially estimated. However, there shouldn't be any major discrepancies.

According to federal law, the lender has to provide you with a closing disclosure at least three days before closing. This rule gives you time to review the CD, address any concerns, and compare it to your estimate.

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# KEY ELEMENTS OF A CD

## Loan Terms

The basic conditions of the mortgage include details like the loan amount, interest rate, monthly principal and interest payments, and whether your rate is fixed or adjustable. The lender should have already gone over these terms during your loan estimate.

However, there can be some minor changes. If you locked the interest rate, that should be consistent across both documents. But payments and other details can change, especially if there are any discrepancies between insurance, taxes, and other add-on charges.

## Projected Payments

You'll find an itemized breakdown of your monthly mortgage payment. Typically, the CD will include a principal and interest (P&I) payment amount and a total amount. The second payment is what you'll actually have to submit to the lender each month and includes add-ons like mortgage insurance and escrow contributions for property taxes.

## Closing Costs

Closing costs list all of the fees and expenses associated with closing the loan, such as origination fees, appraisal costs, title insurance, and prepaid taxes and insurance. Generally, closing costs are roughly 2-5% of the purchase price of the home, but there are many variables at play. Keep in mind that closing costs are separate from your down payment. Together, these figures make up your total cash to close.

## Other Costs

This category includes any additional expenses not directly related to the loan, such as transfer taxes, homeowner association dues, and prepaid interest. Being aware of these add-ons can help you understand the long-term costs of homeownership.

For instance, you'll typically have to fund an escrow account as part of your closing costs. The lender will use these funds to pay your annual property taxes, homeowner's insurance, and

— if required on your loan — private mortgage insurance. Each month, a portion of your mortgage payment will be used to replenish the escrow account.

However, you can have shortfalls in this account. This is common when you purchase a home that is subject to a homestead exemption, as the county will reassess the taxable value after the transaction. Make sure to file for your own exemption after completing the purchase, as doing so can minimize your tax liability.

## Cash to Close

Cash to close refers to the amount of money you need to bring to the closing table. In reality, you'll usually wire these funds before heading to the title company to sign your mortgage documents. The lender will calculate this figure by combining your down payment and closing costs. They'll also subtract any seller's credits.

## Summaries of Transactions

Toward the end of the document, you'll find a summary of transactions. This provides a breakdown of all of the funds and charges involved in the deal, including the total amount you are borrowing, finance charges, and what you'll pay in principal and interest over the life of the loan.

## Loan Disclosures

The final pages of the CD are loan disclosures, which break down specific terms and conditions, like whether you'll incur a penalty for paying off the loan early. Carefully read over all of these disclosures, as it's important to know what sort of agreement you are entering into with the lender. If you aren't comfortable with a term, ask questions before you sign.

# IMPORTANCE OF A CD

A CD promotes transparency during the lending process and helps you better understand the terms and costs associated with your mortgage. Buying a home is an exciting but daunting process. A closing disclosure provides valuable insights into what you are agreeing to and the financial implications.



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