A Guide to Real Estate Closings

Whether you are buying or selling a home, for the 1st time or the 21st time, you are about to engage in one of the more important financial transactions of your life.

But your home is not just an investment, and is at the very center of your life...

If you are selling your home,

you will need to have your home posted on the MLS by your agent, negotiate a contract, arrange to have your home inspected for termites, perhaps take care of repairs . . .

If you are buying a home,

you will need to apply for a mortgage, find a home that matches your needs, negotiate a contract, have the home inspected . . .

And then everyone just needs to "show up at the Closing," right? **That** would be like the actors in a play showing up on opening night without ever rehearsing!

So our office has teamed up with your Real Estate Agent to ensure that all the players in your Closing know their lines, that no one gets "stage fright" and that your Closing gets a "standing ovation."

This is your Closing, and you are an indispensable member of our team.

This document has been optimized for delivery in the PDF format, using Adobe Reader 7.0, the most recent version of the free Adobe Reader. To download the free Reader, direct your web browser to: http://www.adobe.com/products/acrobat/readstep2.html

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Dear Home Buyers & Sellers,

At the Closing, the Sellers' rights to the Property will be transferred to the Buyers & their obligations to their mortgage company, to their Home Owners Insurance company, to any Home Owners Association & for the payment of Property Taxes will be terminated.

And the Buyers will be acquiring the Sellers' rights to the Property, along with their obligations for the payment of Property Taxes & to any Home Owners Association, as well as creating new obligations to their own mortgage company & to their Home Owners Insurance company.

But the Closing is just the culmination of several processes that began when you signed the contract.

We have prepared this Guide to explain these processes & their relationships to each other, so that you can be in control of your Closing, rather than just being a spectator.

This Guide consists of the following sections:

Personal Information: This section explains the importance of the names & marital status of the parties.

Property Information: This section explains:

- The importance of the Property Address.
- Property Taxes & how they are determined, paid & pro-rated between the Buyers & the Sellers.
- The "mechanics" of mortgages, including amortization, pre-paid interest, escrow accounts, Loan to Value Ratios, Mortgage Insurance & paying off the Sellers' mortgage.
- PUDs, Condos, Home Owners Association dues & Restrictions.
- Title Insurance policies & discounts to the Sellers.
- Termite Reports, Home Warranties, Home Owners Insurance, Flood Insurance & the Appraisal.

The Settlement Statement: The Settlement Statement (also referred to as the "HUD"), is a 2-page summary of all of the charges and credits to the Buyers and the Sellers related to the Closing, & looks like it was prepared by an accountant (the format is mandated by the Federal government, so pretty close).

Our sample HUD uses the Appraised Value, sales price, mortgage principal amount, Property Taxes & Title Insurance amounts from the examples used in this Guide, & includes explanatory labels.

Please email me if you have questions about any aspect of your Closing not covered by this Guide, or if you want additional information on anything covered by this Guide.

Sincerely,

Charles E. Reed

Personal Information

What's in a Name?

In Real Estate-Everything!

Our names are the "labels" by which we are identified, but this label can vary from situation to situation, and it can change over time. For instance, your "given" name is on your birth certificate, which may not necessarily match your name on your driver's license, or the way you commonly sign your name. And a woman could take her husband's last name when she gets married; or a married woman could keep her maiden name; and anyone can change their "legal" name for any number of reasons.

Real Estate has its own rules on names: when you buy Real Estate you are referred to as the "Buyer" (or the "Purchaser") in the deed; you are referred to as the "Borrower" in any mortgages on that Property (including any refinances of the original mortgage); and when you sell that Property you are referred to as the "Seller" in your deed to the new Buyers.

Your "legal" name for every one of these situations is defined by the precise way your name as the Buyer was written in your deed to that Property. In order to be legally effective your name as the Borrower on any mortgage, and as the Seller when you sell that Property, must exactly match your name as it is written in the deed transferring the Property to you.

> Real Estate has its own rules on names, and your "legal" name for all purposes is defined by the precise way your name as the Buyer was written in the deed to your Property.

It is very important for the contract to state the correct "legal" name of all of the current Owners of the Property, because court cases have held that a contract that fails to do so might not be enforceable.

If you are the Seller and you have changed your name since you bought the Property, your deed to the new Buyers must state both your name as it is written in your deed and your new name, along with an explanation of the relationship between the two names. For instance, if your name as written in your deed was "Amy Smith" and you later got married and are now known as "Amy Jones," the deed to the new Buyers must refer to you as "Amy Jones, formerly known as Amy Smith, the Seller."

> It is very important for the contract to state the correct "legal" name of all of the current Owners of the Property.

Personal Information

What's in a Relationship?

Marriage & Title in Real Estate

If two or more individuals jointly purchase any Real Estate, their respective rights and interests in the Property are determined by whether they are married to each other, and by how the deed defines their "title" to the Property.

If a married couple purchases Real Estate they will automatically hold title to the Property as "tenants by the entirety," with the result that in the event of the death of either spouse the surviving spouse will automatically and immediately own all of the Property. Because of this and other special rights that only apply to married couples, every deed should note the marital status of both the Buyers and the Sellers.

Two or more individuals who are not married to each other can own Real Estate as "joint tenants with right of survivorship" (which is similar to "tenants by the entirety" for a married couple), with the result that in the event of the death of a co-Owner, the surviving co-Owner(s) will automatically and immediately own all of the Property.

Two or more individuals who are not married to each other can also own Real Estate as "tenants in common," but upon the death of a co-Owner, the deceased co-Owner's interest in the Property will go to his or her heirs, and not to the surviving co-Owner(s). The heirs and the surviving co-Owners will then jointly own the Property.

Because of these very different results upon the death of a co-Owner, any time two or more individuals who are not married to each other jointly buy Real Estate, the deed should clearly state whether they will hold title to the Property as "joint tenants with right of survivorship" or as "tenants in common."

If there has been a death, divorce, marriage or any other change in the name or status of any Owner of the Property from the time it was purchased, please let us know as soon as possible.

Out of Town, But Not Out of the Picture

How to Keep From Being AWOL!

for **sellers**

All of the current Owners of the Property are required to sign the deed to the new Buyers; but any Owner who is unable to attend the Closing in person can authorize someone else to sign the deed on their behalf by the use of a Limited Power of Attorney.

Whenever possible, the person whom the Owner authorizes to sign the deed at the Closing should be a spouse, a relative, or a close friend of that Owner. However, someone in our office can be authorized to sign the deed if no one else is available.

If a Limited Power of Attorney is needed, we will prepare it and email it to any Owner who is unable to attend the Closing. The original Limited Power of Attorney must be signed, notarized and returned to our office several days prior to the Closing so that we can record it simultaneously with the Deed.

Property Information

Property Addresses and Real Estate

Did We Just Sell Our Neighbor's House?

Just as our names are the "labels" by which we are known, in Real Estate, a Property's address is one of the "labels" by which a particular Property is identified.

A complete Property Address consists of the correct house number, the correct designation of the street (Street, Road, Drive, etc.), and the correct City, County and Zip Code.

The Property Address is defined by the location of the mailbox. If the Property is on a corner lot, the mailbox can be placed either on the street that fronts the entrance to the home, or on the other street; the correct Property Address, however, will always be the street on which the mailbox is located.

It is very important for the contract to state the correct Property Address of the Property being sold, because court cases have held that a contract with an incorrect Property Address might not be enforceable.

The Buyers' loan documents must also include the correct Property Address; but since the loan documents often copy the Property Address from the contract, if the Property Address on the contract is incorrect it is likely to also be incorrect on the loan documents, which will then have to be corrected at the Closing.

The Property Address is also relied upon by the Title Searcher and the Appraiser to confirm that they are researching the correct Property, and it is used by the 911 system to ensure that an emergency response is sent to the correct house.

The Tax Man & Real Estate

Tax I.D. Numbers and Tax Liens

Tax I.D. Numbers

The Tax I.D. Number is another one of the "labels" by which Real Estate is identified, and is also used to confirm that Property Taxes for each Property have been paid.

In order to assign a Tax I.D. Number to every Property in the County, the County Tax Assessor divides the area of the County into a grid of squares, referred to as "Maps;" the Maps are subdivided into "Groups;" and the "Groups" are subdivided into individual "Parcels." A Property's Tax I.D. Number, also referred to as the "Map & Parcel Number," consists of the Map, Group, and Parcel Number assigned to that Property.

Property Taxes

Property Taxes are assessed on every Parcel of Real Estate (except for Properties that are exempt because they are owned by the government, a church or other exempt entity) and are an established method of raising government revenue, pre-dating income taxes by centuries. And to make sure that it actually receives this revenue, the government also passed laws that guarantee that it always gets paid.

Property Information

Property Taxes

This payment guarantee consists of an automatic "super-lien" on every taxable Property for each year's Property Taxes, allowing the government to sell a Property in order to recover any unpaid Property Taxes and wipe out any mortgages on the Property in the process.

Property Taxes are assessed annually, covering the period from January 1st through December 31st. The actual amount of Property Taxes due on each Property, however, cannot be officially confirmed until **October 1st of each year**, when Property Tax Bills are prepared and Property Taxes become "due and payable."

> If Property Taxes are not paid by March 1st of the following calendar year they become "delinquent," and monthly penalties and interest are added to the base Property Tax bill.

If Property Taxes remain delinquent for more than 12 months, the County will initiate the process of selling the Property to recover the delinquent taxes owed.

Pro-rating Property Taxes

When a Property is sold, Property Taxes are pro-rated between the Sellers and the Buyers, with the Sellers being responsible for Property Taxes from January 1st until the day of the Closing, and the Buyers being responsible for Property Taxes from the day of the Closing until December 31st, and with the appropriate credits between the Buyers and the Sellers being handled at the Closing.

> "The process of pro-rating Property Taxes between the Sellers and the Buyers will differ depending on whether the Closing is prior to or after October 1st."

Since the exact amount of Property Taxes cannot be confirmed until October 1st, the process of pro-rating Property Taxes between the Sellers and the Buyers will differ depending on whether the Closing is prior to or after October 1st.

If the Closing is held prior to October 1st, that year's tax bill will not yet be available, so the Property Taxes will be paid out of the Buyers' new Escrow Account, (See pages 9& 10 for an explanation of Escrow Accounts).

And since the Property Tax bill to be paid by the Buyers covers the entire calendar year, at the Closing the Sellers will credit the Buyers for Property Taxes due from January 1st until the day of the Closing, the period when the Sellers owned the Property and are therefore responsible for the Property Taxes.

And since that year's Property Taxes will not be available, Property Taxes will be pro-rated based on what the Property Taxes were the previous year.

If the closing is held after October 1st, that year's Property Taxes will be due and payable and must be paid by the Sellers at the Closing; and since the Property Tax bill to be paid by the Sellers covers the entire calendar year, at the Closing the Buyers will credit the Sellers for Property Taxes due from the day of the Closing until December 31st, the period when the Buyers will own the Property and are therefore responsible for the Property Taxes.

Property Taxes in December & January Closings

Most Lenders out-source the task of paying Property Taxes to a specialized Property Tax Company, which combines all of the Property Tax accounts they handle for each County into a single payment in the month of December of each year. So when the Closing takes place in December or January, the Property Tax Company may have sent in the payment for that year's Property Taxes out of the Sellers' Escrow Account, but that payment may not have been processed by the County Trustee by the time of the Closing. In such cases, we will collect the full amount of the Property Taxes from the Sellers and hold it in our Attorney Client Escrow Account until we can confirm with the County Trustee that they have received the full amount of Property Taxes from the Sellers' Escrow Account, and then refund the amount collected to the Sellers.

Property Information

The Tax Man & Real Estate

How Property Taxes Are Calculated

Step One:
The Appraisal

The first step in calculating the Property Taxes for a Property is for the Tax Assessor to appraise that Property in order to determine its "fair market value."

The principal behind an Appraisal is that a sensible person will pay more for a Property that has more square feet of space, is built with better quality, and is situated in a more desirable location, as compared to other Properties. So in order to determine what a Property is worth, an Appraiser compares Properties that have sold recently and that are similar to the Property being appraised (referred to as "comps," a contraction of "comparables"), and then estimates the value of the Property being appraised based on its overall features compared to the overall features of the comps.

The Appraisal by the Tax Assessor follows this same principal; however, the Tax Assessor's appraised value of a Property is likely to be lower than the Property's true fair market value because the Tax Assessor appraises all of the Properties in a County and is not able to evaluate individual Properties to the same extent that an Appraiser hired by a Lender would. In addition, the Tax Assessor only re-appraises Properties every 4 to 6 years (depending on the County) and does not update the appraised values of Properties until the next re-appraisal (unless a Property's value increases as a result of a remodel). As a result, the Tax Assessor's appraised value of a Property could be based on an Appraisal that is several years old, which in a steadily appreciating market, is likely to underestimate the true fair market value of a Property.

Schedule for the next Re-Appraisal for Middle Tennessee Counties

2005	Davidson County & Wilson County
2006	Rutherford County & Williamson County
2007	Robertson County
2009	Sumner County

Step Two:
The Assessed Value

Property Taxes are based on a Property's "Assessed Value," rather than its Appraised Value, so the second step in calculating Property Taxes is to determine the Property's "Assessed Value."

A Property's Assessed Value is a certain percentage of its Appraised Value, with the percentage varying according to whether the Property is used for residential, commercial or other purposes. If the Property is used for residential purposes, its Assessed Value is 25% of its Appraised Value; if the Property is used for commercial purposes, its Assessed Value is 40% of its Appraised Value.

Since Property Taxes are based on a Property's Assessed Value, which will vary according to whether the Property is used for Commercial or Residential purposes, Counties and Cities can have a single tax rate for all Properties, yet collect relatively higher taxes from commercial than from residential Properties.

For example, if your Property were appraised by the Tax Assessor at $100,000.00 and classified as residential Property, its Assessed Value would be $25,000.00 (25% of its Appraised Value); however, if that same Property were classified as commercial Property its Assessed Value would be $40,000.00 (40% of its Appraised Value).

Property Information

Step Three:
Tax Rates

The third step in calculating Property Taxes is to determine the Tax Rate that applies to the Property.

Tax Rates are set by the Counties and Cities within whose boundaries the Property is located. The County Tax Rate will apply to all Properties within that County, and if the Property is located within the boundaries of a City that has Property Taxes, the Tax Rate of that City will be added to the County Tax Rate. If the City has a Special School District or other special district, the District Tax Rate will be added to the City Tax Rate for Properties located within the District.

In our steadily appreciating Real Estate market, most Properties are appraised for higher values every time they are re-appraised by the Tax Assessor. If the same Tax Rate were applied to these higher values, Property Taxes would automatically go up with every re-appraisal.

To keep this from happening, after each re-appraisal the Tax Assessor calculates a hypothetical "base" tax rate that would need to be applied to the higher appraised values of Properties in order to keep the total revenue generated from Property Taxes unchanged; the County (and any City that has City Taxes) must then decide whether to enact a new Tax Rate equal to this calculated "base" tax rate, in which case Property Taxes will remain unchanged, or to enact a new Tax Rate that is higher than this calculated "base" rate, in which case Property Taxes will go up accordingly.

The Tax Rate set by any County or City is defined as a certain dollar amount of Property Taxes per every $100.00 of the Assessed Value of a Property.

2004 Davidson County Tax Rates	
General Services District (Applies to all Properties in Davidson County)	$3.84
Urban Services District	$0.74
Satellite Cities	
Belle Meade	$0.35
Goodlettsville	$0.70
Ridgetop	$0.85
Forest Hills, Oak Hill, Berry Hill and Lakewood do not have any separate City Property Taxes.	

Davidson County Tax Rates

Davidson County and the City of Nashville combined into a single "Metropolitan" form of government in the 1960s; but for Property Tax purposes the distinction between Davidson County and the City of Nashville remained essentially intact.

The incorporated cities within Davidson County other than Nashville became separate "Satellite Cities," consisting of Belle Meade, Goodlettsville, Ridgetop, Forest Hills, Oak Hill, Berry Hill, and Lakewood.

In Davidson County the equivalent of the "County" for Property Tax purposes is referred to as the "General Services District," which encompasses the entire area of Davidson County. All Residential Properties located within Davidson County, including Properties within the Satellite Cities, are assessed taxes at the General Services District Tax Rate. Some of the Satellite Cities provide additional services to Properties located within their city limits, the cost of which is covered by Property Taxes separately assessed by that Satellite City.

The area that was formerly the Nashville City Limits is referred to as the "Urban Services District," and Properties located within this area are assessed an additional Urban Services District Tax Rate (the equivalent of "City Taxes"), to pay for additional services such as street lighting, garbage collection, sidewalks, and higher levels of police and fire protection.

The Urban Services District is more or less bordered on the North by Briley Parkway; on the East by the Cumberland River, the Stones Rivers, and Percy Priest Lake; on the Southeast by a line just beyond Mt. View Road, Bell Road and Old Hickory Boulevard; on the South by the City Limits of the Satellite Cities of Oak Hill, Forest Hills, and Belle Meade; and on the West by the Cumberland River.

The Urban Services District does not encompass any of the Satellite Cities, nor the areas that are outside the former Nashville City Limits, such as Bellevue in the Southwest, Madison, Whites Creek and Joelton in the North, and Old Hickory and Hermitage in the East.

Property Information

Step Four:
Tax Bills

The fourth and final step in calculating Property Taxes for each Property is to multiply the applicable Tax Rate by the Assessed Value of the Property, which is the task of the County Trustee, who also mails the Property Tax Bills to each Property Owner. If City Taxes apply, the City government will perform the same tasks on behalf of the City.

The steps involved in calculating 2004 Property Taxes for a sample Residential Property located in Davidson County are as follows:

Appraised Value	$100,000.00
Assessed Value (25% of the Appraised Value)	$25,000.00
General Services Tax Rate	$3.84 x ($25,000.00 / $100.00) = **$960.00**

If the Property is located in the Urban Services District or in a Satellite City that has separate Property Taxes, that tax rate would be added to the General Services Tax Rate.

For example, if the Property were located within the Urban Services District, Property Taxes would be calculated as follows:

General Services Tax Rate + Urban Services Tax Rate	($3.84 + $0.74) x ($25,000.00 / $100.00) = **$1,145.00**

Don't "Lien" on Me!

Mortgages & Other Liens

Mortgages

A mortgage is a "lien" on the Property, and must be released in order to sell the Property.

Mortgage payments are typically due and payable on the 1st of each month; a late fee is charged if the Lender has not received your payment by the 15th of the month; and if the Lender has not received your payment within 30 days of its due date they will notify a Credit Reporting Agency (Credit Bureau).

Amortization

Mortgages are "amortized" over a stated number of years, usually 15 or 30, which means that if the Borrower makes all of the monthly payments, the total amount borrowed (the "Principal") plus all interest will be paid in full at the end of the amortization period. An Amortization Schedule is a break-down of each monthly payment, allowing you to easily see what your Principal balance is as of any given payment in the amortization period.

Fixed Rate v. Adjustable Rate Mortgages

If the mortgage has a fixed interest rate, the monthly payments will remain constant for the entire amortization period; if the mortgage has an adjustable interest rate, however, the monthly payments will fluctuate along with any changes in the interest rate.

Property Information

Amortization of Fixed Rate Mortgages

Amortized mortgages are structured in such a way that at the beginning of the amortization period only a small portion of each monthly payment is applied towards paying off the Principal, with most of the payment consisting of the interest owed on the Principal from the 1st of the previous month through the last day of the previous month.

> "If the mortgage has a fixed interest rate, the monthly payments will remain constant for the entire amortization period"

With each monthly payment the portion applied towards paying off the Principal increases slightly, and the portion devoted to paying interest decreases slightly, until the total amount of Principal and interest is paid in full with the last scheduled monthly payment.

For example, if you had an $80,000.00 mortgage at a fixed annual interest rate of 10%, amortized over 30 years, your monthly payments would be $702.06.

Your first payment of $702.06 would include interest in the amount of $666.67 for the previous month on the entire Principal amount of $80,000.00 ($80,000.00 x 10% = $8,000.00 divided by 12 months = $666.67).

The $35.39 difference between the total amount of your first payment and the interest owed for the previous month is applied towards the Principal, which is thereby reduced to $79,964.61 ($80,000.00 - $35.39 = $79,964.61).

The second monthly payment would still be $702.06, but the interest owed for the previous month would only be $666.37, since it would be based on the new principal amount of $79,964.61 ($79,964.61 x 10% = $7,996.46 divided by 12 months = $666.37). This process continues in similar fashion throughout the amortization period, with the result that the entire Principal and all accrued interest will be paid in full with the last scheduled payment.

If you pay an additional amount towards the Principal, in addition to your regular mortgage payments, you will save the interest that you would otherwise have owed on that amount for the balance of the amortization period.

For instance, using our example above, if you made an additional $1,000.00 payment towards the Principal at the end of the 5th year, you would save 10% annual interest on $1,000.00 over 25 years, or approximately $2,500.00.

> In contrast, if this were an interest-only mortgage, you would only pay the $666.67 interest payment each month, and at the end of 30 years the Principal amount you owe would still be $80,000.00.

The precise amount that you save for every extra dollar that you pay towards the Principal will depend on the interest rate that you are paying, and on how early in the amortization period you make the extra payment. Your monthly mortgage payment will remain the same even if you make additional payments towards the Principal, but the mortgage will be paid off earlier than the payoff date projected in the Amortization Schedule; and if you sell the Property before your mortgage is paid off, or if you refinance your mortgage, the Payoff amount will be lower than it would otherwise be if you had not made any additional payments towards the Principal.

Property Information

for buyers — New Mortgages

Monthly mortgage payments pay interest "in arrears," from the first day of the prior month through the last day of the prior month. But when a new mortgage first goes into effect on the day of the Closing, the Buyers would only owe interest from the day of the Closing until the end of the month of the Closing. So rather than having the Buyers' first mortgage payment be for the partial month in which the Closing took place, Lenders require the Buyers to pre-pay the interest that would be owed from the day of the Closing until the end of the month in which the Closing took place.

> Monthly mortgage payments pay interest "in arrears."

And since the interest for the month in which the Closing took place was "pre-paid" at the time of the Closing, there would be no interest owed "in arrears" the month following the month in which the Closing took place, and so the Buyers would not need to make a mortgage payment that month; and the Buyers' first mortgage payment would not be due until the second month after the Closing, and will include interest for the month following the month in which the Closing took place.

For example, if the Closing were on June 15th, the Buyers would pre-pay interest from the 15th through the 30th of June; the Buyers would not need to make a mortgage payment in the month of July, since the interest owed for the month of June would have been pre-paid at the Closing; and the Buyers' first mortgage payment would not be due until the month of August, which would include the interest owed in arrears for the prior month of July.

for buyers — Escrow Accounts

Mortgage Lenders typically require the Borrowers to establish an Escrow Account, out of which each year's Property Taxes and Homeowners Insurance Premiums are paid by the Lender. The Borrowers' monthly mortgage payments will include contributions into the Escrow Account of 1/12th (one month's portion) of the annual Homeowners Insurance Premium and of the annual Property Taxes; so after 12 monthly payments their Escrow Account will contain sufficient funds to pay these bills when they become due.

> "The Borrowers' monthly mortgage payments will include contributions into the Escrow Account of 1/12th (one month's portion) of the annual Homeowners Insurance Premium and of the annual Property Taxes"

But in the first year after the Closing the Buyers will not have made 12 monthly payments by the time the Homeowners Insurance Premium becomes due, since they will not be making their first mortgage payment until the second month after the month of the Closing; and Property Taxes are always due on the 1st of October, so the number of payments that the Buyers will have made by the time the Property Taxes become due will depend on the month in which the Closing takes place.

Taking the above factors into account, the Lender will calculate the amount that the Buyers are required to contribute into their Escrow Account at the time of the Closing in order to have the entire amount needed to pay the Homeowners Insurance and Property Tax bills when they become due. If these calculations result in an

Property Information

for buyers

The Loan to Value Ratio

amount that exceeds the total amount the Lender is allowed to hold in an Escrow Account under Federal law, an adjustment (referred to as the "Aggregate Adjustment") is made to the amount the Buyers are required to contribute to their Escrow Account , and the actual amount collected is the calculated amount minus the Aggregate Adjustment.

At the Closing, the Buyers will receive their "Initial Escrow Account Statement," which lists the amount they contributed into their Escrow Account at the time of the Closing, the amounts that they will be contributing to their Escrow Account with each monthly mortgage payment, and the disbursements from their Escrow Account during the first 12 months following the Closing.

The Loan to Value Ratio (the "LTV") is the ratio of the Principal amount of the mortgage to the "value" of the Property. For example, if the value of the Property is $100,000.00 and the Principal amount of the mortgage is $80,000.00, the LTV would be 80% ($80,000.00 divided by $100,000.00 = 0.80 or 80%). More accurately, the "value" upon which the LTV is based is the lower of the sales price or the appraised value. If the Property appraises for less than the sales price of the Property, the LTV is based on the appraised value. But if the Property appraises for more than the sales price, the "value" of the Property is still defined as the sales price.

If the sales price of the Property is set appropriately, the appraised value should equal the sales price; but if the Property is priced to sell quickly, the appraised value could be higher than the sales price.

Problems with the Property appraising for less than the sales price can arise when the Sellers agree to pay part of the Buyers' Settlement Charges, and simply add that amount to the sales price. But this usually means that the Appraiser has to stretch to appraise the Property for this increased sales price, and sometimes is simply unable to justify an appraised value equal to the sales price.

The Buyers can always cancel a contract if the Property doesn't appraise for the sales price, so in such cases the parties have to go back to the negotiating table to see if the deal can be salvaged.

> "The LTV is the ratio of the Principal amount of the mortgage to the lower of the appraised value or the sales price of the Property.

Keep in mind that Settlement Charges paid by the Sellers do not amount to "free money" for the Buyers if the sales price is simply increased by the amount of Settlement Charges paid by the Sellers. Such deals can be worthwhile under the appropriate circumstances, but should be evaluated very carefully.

The difference between the Principal amount of the mortgage and the Sales Price is the amount of the Buyers' "equity" in their Property, which in the above example would be $20,000.00, or 20% of the Sales Price.

The Settlement Statement does not calculate the Buyers' "down payment," and that term can be misleading; rather, the Settlement Statement lists the Sales Price and all of the other charges to the Buyers, as well as the Principal amount of the mortgage and all other credits to the Buyers, and the net amount is the amount that the Buyers will need to bring to the Closing.

Property Information

for buyers
Mortgage Insurance

Lenders are statistically likely to recover only 80% of the fair market value of a foreclosed Property, after allowing for foreclosure and selling costs. Therefore, mortgages with an LTV greater than 80% are required to have Mortgage Insurance, which assures the Lender that they will recover 100% of the amount of the mortgage in the event of a foreclosure.

Most "conventional" mortgages only require a monthly Mortgage Insurance Premium, which is simply included in the total monthly mortgage payment, and do not require a pre-paid Mortgage Insurance Premium.

FHA mortgages also require monthly Mortgage Insurance Premiums, but, unlike conventional mortgages, also require a sizable pre-paid Mortgage Insurance Premium. FHA mortgages can still be advantageous, however, as they only require a modest down payment (around 3% of the sales price), have competitive interest rates, have more lenient credit and debt requirements than conventional mortgages, and allow the cost of the pre-paid Mortgage Insurance Premium to be included in the Principal amount of the mortgage.

for sellers
Interest and Mortgage Payoffs

Interest on your mortgage accrues daily through the end of each month, to be paid with your next monthly mortgage payment. But when you sell the Property you will not be making that next monthly payment, since your mortgage must be paid in full as of the day of the Closing.

"Interest on your mortgage accrues daily through the end of each month, to be paid with your next monthly mortgage payment. "

In order to confirm with your Lender the exact sum of money required to pay your mortgage in full, our office requests a "Payoff Statement" from your Lender, which is your Lender's accounting of the Principal amount and accrued interest as of the day your Lender actually receives the Payoff, plus any other fees your Lender charges (such as late fees and Payoff processing fees).

In order to receive the Payoff Statement from your Lender, we will send you a form requesting the Social Security Numbers of all the Sellers, the name and telephone number of your Lender and the mortgage account number.

It could take a Lender several days to process a mortgage payment; therefore, you should make your mortgage payment for the month of the Closing as early in that month as possible, in order to allow the Lender sufficient time to process your payment prior to calculating the Payoff.

We will also need your forwarding address to send in with the Payoff, so that the Lender can forward to you any refunds due from your Escrow Account or any overpayment in the Payoff.

Property Information

PUDs, Condos & Liens for Home Owners Associations Dues

If the Property is a PUD or a Condo, any unpaid Home Owners Association (HOA) dues will be a lien on the Property, and so must be paid in full at the Closing.

In order to verify the amount of HOA dues that will be due and payable as of the Closing, or the date through which the HOA dues have been paid, our office will need to confirm with the Sellers the name and telephone number of the HOA or the Management Company handling the HOA dues.

The HOA dues will be pro-rated as of the Closing date, and charged or credited to the Buyers or Sellers, as applicable, on the Settlement Statement. The Buyers are usually also charged a "transfer fee" by the management company to set up their new account.

PUDs and Condos have recorded “Restrictions” that limit what the Owners could otherwise do with the Property. At the Closing, the Buyers will need to sign a "PUD Rider", making any violation of the Restrictions also a violation of the Deed of Trust.

Title Insurance & Lien-Free Properties

An Owner’s Title Insurance Policy guarantees to the Buyers that the Sellers have good title to the Property, and that at the time of the Closing, the Property is free and clear of any mortgages or other liens. An Owner’s Title Insurance Policy covers the Owners up to the amount of the purchase price, and is valid as long as that Owner owns the Property, but is not transferable to any subsequent Buyers.

A Lender’s Title Insurance Policy, on the other hand, guarantees to the Lender that the Lender’s mortgage has priority over all other liens and that in the event of foreclosure the Lender will be able to obtain clear title to the Property. A Lender’s Title Insurance Policy is freely transferable to any subsequent purchaser of the mortgage, but only covers the outstanding balance of the mortgage at the time a title problem arises.

The cost of an Owner’s Title Insurance Policy is based on the sales price of the Property, amounting to $595.00 for a sales price of $100,000.00, or $995.00 for a sales price of $200,000.00.

It is common for the contract to provide that the Sellers will pay for an Owner’s Title Insurance Policy for the Buyers in the sale of pre-existing homes, but this is a negotiable item.

“If you purchased the Property within 10 years prior to the Closing and received an Owner’s Title Insurance Policy, you are entitled to a discount”

The cost of a Lender's Title Insurance Policy is only a flat $35.00, regardless of the loan amount, so long as the Buyers also get an Owner's Title Insurance Policy at the time of the Closing.

If the Property was purchased within 10 years prior to the Closing and the Sellers received an Owner’s Title Insurance Policy, the Sellers are entitled to a discount on the cost of providing an Owner’s Title Insurance Policy to the Buyers, amounting to 1/3 of the cost of the Owner’s Title Insurance Policy the Sellers received when they purchased the Property. For example, if the Sellers purchased the Property for $100,000.00, the policy would have cost $595.00, so when the Property is sold, the Sellers will be entitled to a discount of $196.35 ($196.35 = $595.00 x 1/3) on the Owner’s Title Insurance Policy they will be providing to the Buyers.

Property Information

Reports, Warranties & Insurance Policies

The Termite Report

A Termite Report (also referred to as a Termite Letter) is a standard form completed by a licensed Termite Inspector, noting whether there is any evidence of termites in any of the readily accessible areas of the Property, including the crawl space and the attic.

Most Lenders require a Termite Report as a condition of funding the Buyers' mortgage.

Contracts typically provide that the Sellers will provide the Buyers with a Termite Report, pay to have the Property treated if live termites are detected, and pay for the repair of any damage to the Property caused by termites, up to the maximum amount specified in the contract.

If the Termite Report indicates that no evidence of termites was discovered at the Property, no further action will be required.

However, if the Termite Report indicates that evidence of termites was discovered at the Property, it will further indicate whether the termites are active, requiring treatment to eliminate them, or inactive, meaning that there has been a past termite infestation that has already been treated, and that does not require further treatment.

The cost of the Termite Report, and of any treatment and/or repair, will be charged to the Sellers on the Settlement Statement at the Closing.

Home Warranties

Home Warranties are insurance policies, covering the risk of a breakdown of an appliance or of the mechanical or electrical systems in a home during the period covered by the warranty (usually one year).

Home Warranties pay for the cost to repair problems with any of the covered items after the Buyers purchase the home, and will not pay for the repair or replacement of items that were defective at the time of the Closing (unless the Sellers also purchased a separate "pre-closing" warranty).

If a problem with a covered item does arise after the Closing, the Buyers will only have to pay a service charge (in the $50.00 range, depending on the Home Warranty) and will not have to pay the cost of repairing or replacing the defective item.

Sellers are not required to provide the Buyers with a Home Warranty, but many choose to do so as a way of assuring the Buyers that the appliances and mechanical and electrical systems in the home are in good working order.

Home Warranties cost around $350.00, depending on the Warranty Company,

"Home Warranties insure against the risk of a problem with any of the covered items after the Buyers purchase the home, and will not cover the repair or replacement of items that were defective at the time of the Closing."

Property Information

and will be charged to the Sellers on the Settlement Statement at the Closing.

If the Sellers will be providing the Buyers with a Home Warranty, the Contract should specify the name of the Warranty Company, the maximum amount that the Sellers will be charged, and whether the Home Warranty will be ordered by the Sellers' Real Estate Agent or the Buyers' Real Estate Agent.

Home Warranties should be ordered well in advance of the Closing. Our office tracks and confirms the Home Warranty order, and provides a copy to all parties for review prior to the Closing. If the Closing falls through for any reason, the Sellers will not be charged for a Home Warranty, and the Home Warranty does not go into effect until the Closing.

Home Warranties on new construction also cover construction defects, including builder workmanship and structural defects, but these are never covered by a Home Warranty on an existing home.

If the Sellers are aware of any defects in the Property, including defects in any of the appliances or in the electrical or mechanical systems, they are required to disclose these defects in the Property Disclosure Form (See "The Residential Property Disclosure Act-An Overview & Analysis" given to you by your Agent); and if any items are defective at the time of the Buyers' Home Inspection, they should of course be addressed under the Sellers' obligation to repair defects, as specified in the Contract.

for buyers

Homeowners Insurance

Homeowners Insurance (also known as Hazard Insurance) insures against the destruction of the Property by fire or other natural calamity. Since the Property is the security for the mortgage, Lenders require the Buyers to maintain a Homeowners Insurance policy on the Property at all times. And in order to ensure that the policy goes into effect, Lenders require the policy premium to be prepaid a year in advance at the Closing, and usually require that the annual renewals of the policy be paid out of the Buyers' Escrow Account.

Lenders further protect their interests by being added to the Buyers' Homeowners Insurance policy as an "additional insured," which requires the insurance company to pay off the mortgage in the event the Property is destroyed.

In order for your Lender to be added as an "additional insured" on your insurance policy your insurance agent must prepare a form called a Declaration Page (commonly referred to as the "Dec Page"), or a Certificate of Evidence of Insurance, and deliver it to our office at least a week prior to the Closing.

In order to have the Dec Page prepared, delivered, and confirmed in time for the Closing, you need to apply for your Homeowners Insurance a couple of weeks prior to the Closing. You have the right to choose your own insurance agent, so long as the insurance company meets standard regulatory requirements; prices can vary between insurance companies, so it is a good idea to shop around.

When you apply for your Homeowners Insurance, it is very important to give your insurance agent our contact information; it is also important that you promptly let both our office and your Loan Officer know the name and telephone number of the Insurance Agent with whom you applied for your Homeowners Insurance.

If the Property is a Condo, the entire Condo complex will be covered by a Master Insurance Policy; our office will need to get a copy of this Master Policy as soon as possible, as we will need to get it approved by the Lender before the Closing.

Property Information

for buyers

Flood Insurance

If the Property is in a flood plain, the Lender will require that you also get a flood insurance policy. You will be notified by your Lender if the Property is in a flood plain, and if so you should contact your insurance agent about issuing a flood insurance policy as well.

for buyers

Appraisals

The Lender will also require an Appraisal of the Property, to confirm that the Property is worth at least as much as what you are paying for it.

Unless the Buyers have already paid for the Appraisal at the time of their mortgage application, the cost of the Appraisal will be one of the Settlement Charges on the Settlement Statement. (Appraisals are also discussed on pages 5 & 6 in the context of Property Taxes, and on page 10 in the context of the LTV).

Residential Property Disclosure Form

Sellers are required to give the Buyers a completed Residential Property Disclosure Form at the time of entering into a contract. Please carefully review "The Residential Property Disclosure Act-An Overview & Analysis" for an in-depth discussion of this form, as well as related matters such as Home Inspection Reports.

The Settlement Statement

Understanding the "HUD"

The Settlement Statement (the "HUD"), is a 2-page summary of all of the charges and credits to the Buyers and the Sellers related to the Closing.

Most charges to the Buyers on the HUD are directly or indirectly related to their mortgage. Lenders are required to give Borrowers a document called a "Good Faith Estimate" within 3 days of applying for a mortgage. But these figures are indeed "estimates," and the interest rate, the loan amount & other figures are likely to change between the time you apply for a mortgage and the final approval of your mortgage.

We strongly recommend that you get a Revised Good Faith Estimate from your Lender once your mortgage has been approved, and go over it with your Loan Officer in light of the information in this Guide.

The following sample HUD uses "pop-up notes" as part of the explanation of certain items. To view a pop-up note, allow the cursor to rest over one of the bright yellow question marks. An explanatory note will appear. For your convenience, the entire contents of these pop-up notes can also be found on the final page of this document.

The Settlement Statement
(“the HUD”)

The charges and credits to the Buyers (referred to as “Borrower”) are listed on the left side, and the charges and credits to the Sellers are listed on the right side, in order to arrive at the net amount due from the Buyers and the net amount due to the Sellers.

OMB NO. 2502-0265

A. U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT **SETTLEMENT STATEMENT**	B. TYPE OF LOAN: 1. ☐ FHA 2. ☐ FmHA 3. ☐ CONV. UNINS. 4. ☐ VA 5. ☒ CONV. INS. 6. FILE NUMBER: SELLER TO BUYER 7. LOAN NUMBER: 123456789 8. MORTGAGE INS CASE NUMBER:

C. NOTE: *This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "[POC]" were paid outside the closing: they are shown here for informational purposes and are not included in the totals.*
1.0 3/98 (SELLER TO BUYER PFD/SELLER TO BUYER/20)

D. NAME AND ADDRESS OF BORROWER:	E. NAME AND ADDRESS OF SELLER:	F. NAME AND ADDRESS OF LENDER:
Bobbie Buyer and wife Barbara Buyer	Sam Seller and wife Sallie Seller	Buyers' Lender

G. PROPERTY LOCATION:	H. SETTLEMENT AGENT: 408-86-1857	I. SETTLEMENT DATE:
123 Elm Tree Lane Nashville, TN 37217 Davidson County, Tennessee	Charles E. Reed, Attorney at Law PLACE OF SETTLEMENT 325 Plus Park Boulevard, Suite 203 Nashville, TN 37217	June 15, 2005

Debits to Borrower

Credits to Borrower

See Page 2

J. SUMMARY OF BORROWER'S TRANSACTION	
100. GROSS AMOUNT DUE FROM BORROWER:	
101. Contract Sales Price	100,000.00
102. Personal Property	
103. Settlement Charges to Borrower (Line 1400)	5,806.54
104.	
105.	
Adjustments For Items Paid By Seller in advance	
106. City/Town Taxes to	
107. County Taxes 10/16/05 to 12/31/05	627.40
108. Assessments to	
109.	
110. HOA Dues 06/15/05 to 07/01/05	53.33
111.	
112.	
120. GROSS AMOUNT DUE FROM BORROWER	106,487.27
200. AMOUNTS PAID BY OR IN BEHALF OF BORROWER:	
201. Deposit or earnest money	500.00
202. Principal Amount of New Loan(s)	80,000.00
203. Existing loan(s) taken subject to	
204.	
205.	
206.	
207.	
208.	
209. Sett'l Charges Paid by Seller	3,000.00
Adjustments For Items Unpaid By Seller	
210. City/Town Taxes to	
211. County Taxes 01/01/05 to 06/15/05	517.60
212. Assessments to	
213.	
214.	
215.	
216.	
217.	
218.	
219.	
220. TOTAL PAID BY/FOR BORROWER	84,017.60
300. CASH AT SETTLEMENT FROM/TO BORROWER:	
301. Gross Amount Due From Borrower (Line 120)	106,487.27
302. Less Amount Paid By/For Borrower (Line 220)	(84,017.60)
303. CASH (X FROM) (TO) BORROWER	22,469.67

Credits to Seller

Debits to Seller

See Page 2

K. SUMMARY OF SELLER'S TRANSACTION	
400. GROSS AMOUNT DUE TO SELLER:	
401. Contract Sales Price	100,000.00
402. Personal Property	
403.	
404.	
405.	
Adjustments For Items Paid By Seller in advance	
406. City/Town Taxes to	
407. County Taxes 10/16/05 to 12/31/05	627.40
408. Assessments to	
409.	
410. HOA Dues 06/15/05 to 07/01/05	53.33
411.	
412.	
420. GROSS AMOUNT DUE TO SELLER	100,680.73
500. REDUCTIONS IN AMOUNT DUE TO SELLER:	
501. Excess Deposit (See Instructions)	
502. Settlement Charges to Seller (Line 1400)	6,832.00
503. Existing loan(s) taken subject to	
504. Payoff of first Mortgage to Sellers' Mortgage Comp	96,000.00
505. Payoff of second Mortgage	
506. Deposit retained by broker	500.00
507. Overnight Mortgage Payoff to Sellers' Mortgage Co.	20.00
508.	
509. Sett'l Charges Paid by Seller	3,000.00
Adjustments For Items Unpaid By Seller	
510. City/Town Taxes to	
511. County Taxes 01/01/05 to 06/15/05	517.60
512. Assessments to	
513.	
514.	
515.	
516.	
517.	
518.	
519.	
520. TOTAL REDUCTION AMOUNT DUE SELLER	106,869.60
600. CASH AT SETTLEMENT TO/FROM SELLER:	
601. Gross Amount Due To Seller (Line 420)	100,680.73
602. Less Reductions Due Seller (Line 520)	(106,869.60)
603. CASH (TO) (X FROM) SELLER	6,188.87

Itemization of Settlement Charges

This page itemizes the Buyers' and the Sellers' Settlement Charges, which are charges directly related to the sale, purchase and financing of the Property. (Settlement Charges are sometimes referred to as "Closing Costs", but that term does not have a uniformly agreed upon definition, and should be avoided).

	PAID FROM BORROWER'S FUNDS AT SETTLEMENT	PAID FROM SELLER'S FUNDS AT SETTLEMENT
700. TOTAL COMMISSION Based on Price $ 100,000.00 @ 6.0000 % 6,000.00		
Division of Commission (line 700) as Follows:		
701. $ 3,000.00 to Sellers' Real Estate Broker Less Deposit Retained 500.00		
702. $ 3,000.00 to Buyers' Real Estate Broker		
703. Commission Paid at Settlement		5,500.00
704. to		
800. ITEMS PAYABLE IN CONNECTION WITH LOAN		
801. Loan Origination Fee 1.0000 % to Buyers' Lender	800.00	
802. Loan Discount 1.0000 % to Buyers' Lender	800.00	
803. Appraisal Fee to Nashville Appraisers, Inc.	350.00	
804. Credit Report to Buyers' Lender	30.00	
805. Underwriting Fee to Buyers' Lender	200.00	
806. Processing Fee to Buyers' Lender	200.00	
807. Mortgage Broker Fee to Buyers' Mortgage Broker	500.00	
808.		
809.		
810. Overnight Loan Package to DSL	30.00	
811. Wire Transfer Fee for Mortgage to AmSouth Bank	15.00	
900. ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE		
901. Interest From 06/15/05 to 07/01/05 @ $ 21.920000/day (16 days 10.0000%)	350.72	
902. Mortgage Insurance Premium for months to Mortgage Insurance Company		
903. Hazard Insurance Premium for 1.0 years to Buyers' Insurance Agent	375.00	
904.		
905.		
1000. RESERVES DEPOSITED WITH LENDER		
1001. Hazard Insurance 10.000 months @ $ 31.25 per month	312.50	
1002. Mortgage Insurance 0.000 months @ $ 47.50 per month		
1003. City/Town Taxes months @ $ per month		
1004. County Taxes 11.000 months @ $ 95.42 per month	1,049.62	
1005. Assessments months @ $ per month		
1006. months @ $ per month		
1007. months @ $ per month		
1008. Aggregate Adjustment months @ $ per month	-117.00	
1100. TITLE CHARGES		
1101. Settlement or Closing Fee to Charles E. Reed, Attorney at Law	175.00	175.00
1102. Document Preparation to Charles E. Reed, Attorney at Law	125.00	125.00
1103. Settlement or Closing Fee to		
1104. Document Preparation to		
1105. Document Preparation to		
1106. Notary Fees to		
1107. Attorney's Fees to		
(includes above item numbers:)		
1108. Title Insurance to Title Underwriter	35.00	595.00
(includes above item numbers:)		
1109. Lender's Coverage $ 80,000.00 35.00		
1110. Owner's Coverage $ 100,000.00 595.00		
1111.		
1112.		
1113. Prepare Seller Mtg Release to Charles E. Reed, Attorney at Law		25.00
1200. GOVERNMENT RECORDING AND TRANSFER CHARGES		
1201. Recording Fees: Deed $ 13.00 ; Mortgage $ 103.00; Releases $ 12.00	116.00	12.00
1202. City/County Tax/Stamps: Deed ; Mortgage		
1203. State Tax/Stamps: Revenue Stamps 370.00; Mortgage 89.70	459.70	
1204.		
1205.		
1300. ADDITIONAL SETTLEMENT CHARGES		
1301. Survey to		
1302. Pest Inspection to Pest Inspection Co., Inc.		50.00
1303. Home Warranty to Home Warranty Co., Inc.		350.00
1304.		
1305.		
1400. TOTAL SETTLEMENT CHARGES (Enter on Lines 103, Section J and 502, Section K)	5,806.54	6,832.00

Credit for The Buyers' Earnest Money

Fees related to Mortgage

"Prepaids"

Borrower's Contribution to Escrow Account

Lender's Title Insurance Policy

Owner's Title Insurance Policy

These are the fees for recording the deed & the mortgage.

These are the "transfer taxes" based on the sales price of the Property and on the amount of the mortgage.

Borrower's Total Settlement Charges, Transferred to Line 103 on 1st page

Seller's Total Settlement Charges, Transferred to Line 502 on 1st page for **buyers**

A Supplementary Explanation of the Settlement Statement

for **sellers**

Line 103: The Settlement Charges for the Buyers are itemized on the second page, and the total amount is transferred to this line.	**Line 502**: The Settlement Charges for the Sellers are itemized on the second page, and the total amount is transferred to this line.
Line 107: This calculation of pro-rated Property Taxes uses a Closing Date of October 16th to illustrate how Property Taxes would be handled if the date of the Closing were after October 1st.	**Line 407**: This calculation of pro-rated Property Taxes uses a Closing Date of October 16th to illustrate how Property Taxes would be handled if the date of the Closing were after October 1st.
Line 110: If the Property is a condo or a PUD and the Sellers have paid HOA dues through a date that is after the Closing Date, that payment will be pro-rated between the Buyers and the Sellers at the Closing.	**Line 410**: If the Property is a condo or a PUD and the Sellers have paid HOA dues through a date that is after the Closing Date, that payment will be pro-rated between the Buyers and the Sellers at the Closing.
Line 201: The amount of the Buyers' earnest money check, paid to the Sellers' Real Estate Broker.	
Line 506: The Buyers' earnest money check is usually retained by the Sellers' Real Estate Broker and applied towards the Real Estate Commission owed them by the Sellers, so it is reflected as a credit against the total amount of the Commission charged to the Sellers (see Lines 701 & 703 on the 2nd page), and charged to the Sellers on Line 506 of the 1st page.	
Line 209: The amount of the Borrowers' Settlement Charges paid for by the Sellers, if any, as agreed in the contract.	**Line 509**: The amount of the Borrowers' Settlement Charges paid for by the Sellers, if any, as agreed in the contract.
Line 211: This is how Property Taxes would actually be pro-rated, since the Closing Date is prior to October 1st.	**Line 511**: This is how Property Taxes would actually be pro-rated, since the Closing Date is prior to October 1st.
Line 303: This is the amount that the Buyers need to bring to the Closing, in the form of a cashier's check payable to "Charles E. Reed, Attorney Client Account".	
Line 603: This is the net amount of the check to the Sellers.	

