



Before and After: Pre-Closing and Post-Closing

PRE-CLOSING

There are a few important matters to take care of between the day your offer is accepted and the day you hold the keys to your new home. The TOP FIVE IMPORTANT matters include:

1.) INSPECTION

Major flaws are not uncommon, especially in older homes, and you'll want to know what they are up-front.

The home inspector is an objective third party who essentially gives your house a complete physical. He or she examines the property and reports on the condition of the structure and systems of the house, such as:

- * Plumbing
- * Electrical
- * Foundation
- * Heating and air conditioning
- * Dry rot
- * Boat docks
- * Sea walls
- * Pools

You may need to hire additional inspectors who are licensed in specific areas such as for termite damage and roof inspection.

If the inspectors you hire find problems with the property you're under contract to buy, the seller does not necessarily have to fix everything reported. Those items then become a matter of negotiation.

Of course, your purchase contract must address your rights to negotiate, or you can't do anything!

FINDING AN INSPECTOR

Since not all states license inspectors, finding a qualified home inspector isn't always easy. The first place to start is to ask your real estate attorney for a referral. You can also talk to friends or colleagues who have recently bought a home. The American Society of Home Inspectors is a professional association which requires its members to pass exams and perform a minimum of 250 property inspections. For local members, check out the web address at www.ashi.com, or call 1-800-743-2744.

Tips for hiring an inspector:

- * Ask the inspector to provide a sample report. Make sure it's legible, descriptive and very thorough. Good reports are booklets of information about your home, not just a series of checked or unchecked boxes.
- * Find out what elements of the house are and are not included in the inspection.
- * Talk to previous clients of the inspector who have owned their homes for a year or so. Find out if the inspector missed anything significant.
- * Don't consider your inspection a guarantee or warranty, but simply the best information possible at an affordable cost.
- * Try to be on site during the inspection. You'll learn things about your house you may never know otherwise, and it's a great opportunity to ask questions.

2.) Appraisal.

No lender wants to lend you more money than the home is worth. So, after you apply for a loan, the lender will call for an appraisal of the home's market value.

Before a lender will approve your loan, the loan officer will hire (and you will pay for) an appraiser to determine the quality of the property and its fair market value.

Lenders usually choose appraisers from a list of certified or licensed individuals connected with organizations like Appraisal Institute or National Association of Independent Fee Appraisers.

The appraiser evaluates a home using three methods:

1. Comparative market analysis, which the appraiser uses to find a typical selling price of a comparable home, not necessarily the highest priced home in the area
2. Interviews with real estate agents and the appropriate government real estate tax personnel
3. Touring the property, taking into account the square footage, floor plan, number of rooms and baths, upgrades, overall condition of the home and the neighborhood

Keep in mind:

- * Although you pay the appraisal fee, the appraiser works for the lender, which uses an appraisal as a final qualifier for finalizing the loan.
 - * If you question the results, you may want to engage your own appraiser for a second opinion.
 - * Appraisers often work on a tight deadline, right before closing. If the appraisal comes in lower than the selling price, it could throw a monkey wrench into your loan approval process.
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3.) TITLE INSURANCE

Title insurance protects you (and the lender) should something in the property's history threaten your ownership rights.

Imagine jumping through all the necessary hoops you have to jump through to buy a home, and then finding out your home is NOT yours! Unfortunately, many situations can stand between you and a marketable title, a condition that states evidence of your problem-free ownership rights to a particular property.

The purpose of title insurance is to secure your legal claim to the property and protect you against title "defects", legal rights to a property claimed by somebody else. Unfortunately, hidden defects can surface even after you've gone through closing, and can stand between you and a marketable title. With title insurance, the title insurer not only pays the costs if you're ever forced to defend your ownership in court, but covers any financial loss if the title defects can't be settled.

To get a mortgage you have to buy a lender's title insurance policy. This protects the lender against any title problems. But to protect YOUR interests, you need owner's title insurance, as well.

Although many companies sell title insurance, a lay title agency (one that's not affiliated with a law firm) only prepares documents for closing and issues your title insurance policy.

A lay title agency cannot:

- * Prepare contracts
- * Resolve title or inspection issues
- * Give you legal advice regarding the content of documents you sign during the closing

A real estate attorney is trained in the complexities of real estate law and is best qualified to issue your owner's title insurance policy. Since the fee for title insurance will be about the same with or without a real estate attorney, it just makes sense to get the added value of an attorney's legal advice and counsel.

What happens if defects are found?

A title search involves learning the legal history of a property. This is done by researching the public records to disclose the previous owners of record, prior deeds, mortgages, court judgments, proceedings and divorces, foreclosures, tax and construction liens, and other things that can affect title.

If a title search reveals obvious defects, you can ask the seller to undertake legal proceedings to clear them, or, you can withdraw from the deal.

There are also hidden defects which may not surface even in the course of a thorough title examination. One of these could put your ownership of the property in question even after you've closed, which is why title insurance is so critical. Your real estate attorney can help you rectify any problems down the road that occur as a result of these hidden defects.

Some examples of hidden defects include the following:

- * Lost or forged deeds
- * Married seller who represents himself or herself as single
- * Claims of undisclosed heirs
- * Impersonation of another
- * Clerical errors by courthouse clerks
- * Incorrect legal description of property
- * Contracts signed by minors or mentally incompetent persons
- * Improperly probated will
- * Confusion of title resulting from similar names

The purpose of title insurance is to protect against these types of defects. The title examination, by a trained professional, is the first line of defense and protection. The title insurance policy is the second line of protection for everything the title exam would not have revealed (hidden defects).

Know the "exceptions" to your title.

As part of the title search, your real estate attorney will list any title exceptions. Exceptions are situations where the title owner relinquishes control over a given aspect of the property, such as a shared driveway.

If you want to object to these exceptions, you have a specified amount of time to do so. And the seller has time allotted to resolving the exceptions. If the issues can't be resolved, the buyer can legally get out of the purchase contract.

If you don't have a real estate attorney, you won't know anything about the exceptions, you won't know to object to them, and you won't get clarification about why they're necessary.

Do you need more coverage?

Ask your attorney if you'll need special endorsements to supplement your standard title policy. This extended coverage is used most often to protect owners of condominiums and planned unit developments (PUDs), but many different types of endorsements are used for a variety of reasons.

One-time cost.

You can expect to pay a one-time charge ranging from a few hundred to over a thousand dollars, depending on the sale price, for owners title insurance at closing. Unless you refinance your loan, this is the only time you'll have to pay this premium.

4.) HOMEOWNERS INSURANCE

If you are applying for a mortgage, the lender will insist you buy homeowners insurance. This insurance protects not only your home, but also your personal belongings inside.

Although your mortgage lender insists you have homeowners insurance to protect their collateral: your home, you may ultimately benefit, because no one is immune to natural disasters or thievery or rotten luck. And most people don't have the ready cash to replace a roof destroyed by a hurricane, or stolen electronic equipment, or a house full of furniture and clothes should there be a fire.

What's covered?

Shop around for the best coverage and rates. It is generally advised to purchase the most comprehensive coverage possible. You can cut the cost by taking a higher deductible.

All policies are different, but items typically covered by homeowners insurance:

- * Your home and garage
- * Your living expenses, should damage to your home cause you to have to leave the premises
- * Personal possessions within the home and on your property

What's not covered?

Lenders require homeowners who live near the coast or any flood-prone area to purchase flood and/or windstorm insurance, which also covers damage or loss due to hurricanes. Costs vary, but you can get an idea of prices for your area by contacting your state's Department of Insurance.

5.) PRE-CLOSING CHECKLIST.

This list will help you keep track of the many steps involved in the closing process.

Critical Events
Critical Dates
Notes
Purchase contract signed
First deposit due
Mortgage applied for
Date by which mortgage commitment is due
Written notice to seller of mortgage acceptance
Second deposit due
Date by which buyer's inspection must be conducted
Notice of problems identified during inspection (and cost estimate) due to seller
Seller's response to buyer's notice of inspection due
Termite inspection ordered
Date by which termite inspection must be completed
Termite damage repair cost estimate due to seller
Title examination
Title commitment due to lender and buyer
Survey ordered (if not ordered by lender)
Certificate of approval requested for condo/homeowners association
Homeowners insurance purchased
Title insurance purchased
Estoppial or payoff letter (re-finance only)
Other
Closing date

POST-CLOSING: Transferring the Title "Transfer of title" moves ownership of property from seller to buyer. Before this can happen, two events must take place:

- * Delivery of the buyer's funds. This is the check or wire funds provided by the lender in the amount of the loan.
 - * Delivery of the deed. A deed is the document that transfers ownership of real estate. The deed names the seller and buyer, gives a legal description of the property, and contains the (notarized) signatures of the seller and two witnesses.
- Depending on the situation, one type of deed may benefit the buyer more than another. The real estate attorney can advise on this matter.

TRANSFERRING THE TITLE

Title to the property transfers to the buyer as soon as the seller places the deed into the hands of the buyer. The buyer doesn't leave with the deed; instead, the closing agent (who may be the real estate attorney) will take it to be recorded at the county clerk's office. It will be mailed later to the buyer.

At this point, the buyer will leave the closing with a mountain of paperwork to file and the keys to his new home!