Closing the Real Estate Transaction

BUSN 120

EXECUTIVE SUMMARY

There are several processes involved in closing the real estate transaction. I will not be able to cover them all. The ones I will cover in this paper are the mortgage, the title search, the home/pest inspection, and the escrow closing/closing costs. Buying a home is a tedious process from beginning to end. It starts with the buyer doing research and locating a real estate realtor to help in the process of them buying a home.

Once a realtor is selected then the buyer might have to sign a broker’s agreement in order for the realtor to get paid. Next step will be to get a preapproved letter. This letter will verify the buyer’s income and pull his or her credit report to make sure they qualify for the loan. At this point, the buyer has to determine what is affordable with in his or her budget.

Now, it will be time to look for a home in that price range.

When the home of choice is found, negotiations begin. Upon agreement, then the process begins with the deposit of earnest money to secure the buyer’s intentions on purchasing the property. Throughout the transactions, the title search and all inspections will be completed. At the end when all the paperwork is signed, and the escrow closing and closing cost takes place.

With keys in hand, the buyer now has full access to his or her property. The following month is when the mortgage payments begin. The mortgage is the process of borrowing money to purchase a property and using the property being purchased as collateral for the loan (Floyd & Allen, 2011). The mortgage is a long-term investment that the buyer will pay for a number of years depending on the type of loan and their current financial situation.

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# Mortgage

One of the most commonly used terms in real estate is mortgage or mortgage loan. A mortgage is a loan that the buyer secures to finance the purchase of real property such as a home (Floyd & Allen, 2011). The mortgage is a long-term investment which will either last 15 or 30 years, so the buyer should be really committed to such a large purchase. Also, the buyer has to understand that there are several parts to the mortgage that will be paid over the life of the mortgage. The parts are the principal, accrued interests, taxes, and insurances (Rodriguez & Dombrow, 2015).

The mortgage allows the buyer to pay back the principal borrowed from the lender through regular payments (Encinas & Herde, 2013). It is broken down with part of the payment being applied to the principal and the other part being applied to the interest. The buyer can reduce the length of his or her payment by paying extra to the principal. Another option for the buyer is to choose to pay back the mortgage by either choosing a shorter maturity loan or by using biweekly payments or semi-monthly payments (Encinas & Herde, 2013). Some other features of the mortgage loan are the size of the loan and the maturity of the loan might vary, and there might be variations in other characteristics as far as the loan is concerned (Encinas & Herde, 2013).

Once the property is purchased, the owner can mortgage the property later on for additional funds for repairs, additional investments, improvements, or a simple vacation.

This transaction requires a lien to be put on the corresponding property (Mastrodi & Isaac, 2016). A lien is a claim on a property as either security for a debt or fulfillment of some financial charge or obligation (Floyd & Allen, 2011). If this lien is not paid on time or goes into default, the owner risks losing his or her property. It means that the legal mechanism that is setup allows the lender to take possession of the property and then sell that property in the secured manner (Mastrodi & Isaac, 2016).

At this point, the lender will foreclose on the home. The foreclosure process results in the property being sold at a public auction with the proceeds of the auction being used to satisfy the debt in some states (Floyd & Allen, 2011). In other states, the transfer of ownership from the homeowner to the lender will be automatic (Floyd & Allen, 2011). This is detrimental to the family because they lost their home which is probably one of their biggest purchases in life.

# Title search

One of the first things that should take place after a buyer decides to purchase property is to have a title search done on the property. The title search gives the buyer proof whether or not if the property has a clear title in order to be transferred without any complications **(**Levitin, 2013). The real estate broker three main concerns can be taken care of once the title search is completed. The three concerns are:

1. If the seller has an interest in the property of the home or company in question

( Levitin, 2013)?

1. If there are any restrictions and allowances attached to the usage of the land

(Levitin, 2013)?

1. Are there pre-existing liens on the property and will the liens be paid off during the closing time of the deal (Levitin, 2013).

Once these questions are answered, then the real estate broker can proceed with the process. Also, another instance when there might be a need for the title search is when the owner wants to mortgage his or her property and the bank needs to know that all corresponding transactions in this regard are already insured (Encinas & Herde, 2013). Even if the title search comes back clear, the buyer still needs to purchase title insurance. Title insurance protects the buyer and the seller from any legal ramifications that could surface in the future that did not show up during the initial title search (Floyd & Allen, 2011). The bottom line is that the title company does the title search to make sure the seller has full rights to sell the home and to ensure that the buyer will get full rights to the home that he or she is purchasing because this is a long term commitment. No surprises, later on, should surface with a clean title search approval.

# Home/Pest Inspection

A home and pest inspection can part of the appraisal process. They are a visual and physical inspection conducted by a state licensed inspector that will identify any defects in the property (Rodriguez & Dombrow, 2015). One of the key things of the inspector’s job is to make sure that he or she see through all signs of infestations in the existing structure and at the same time make sure that the structure of the wood and the foundation is in good condition. Some of the things that are critical during the process of the pest inspection for the inspector to look for are:

1. Pests that are destroying the wood in the house such as termites and carpenter ants ( Rodriguez & Dombrow, 2015).
2. Evidence of the previous pest activity in order to make sure that plumbing leaks and other corresponding issues can be taken care off in the right manner (Rodriguez &

Dombrow, 2015).

The average time for theses inspections are between one to three hours depending on the overall size of the home and the extent of the damage that is being done or has been done to the home. Even though the home or the pest inspections might not be required, it would be in the best interest of the buyer to have one done. In most states, these are required by law. This way the buyer knows exactly the condition of the property before purchasing it. There are several other inspections that can be performed before a buyer decides to purchase such as environmental inspections. It all depends on the location of the property and the lender’s requirements.

# Escrow Closing/Closing Costs

Escrow closing and closing costs are processes that are a bit of a mystery when real estate investments are discussed with a potential buyer. Most buyers do not understand these terms; but if they have a good real estate realtor, he or she will fully explain not only these terms but the entire home buying process. The escrow closing usually happens around the period when the seller has accepted the purchase agreement (Rodriguez & Dombrow, 2015). This is also the time when the buyer gets the keys to his or her new home. Now once the buyer and the seller are in mutual agreement with the contract, the money is collected in an earnest manner and put in an escrow company account (Rodriguez & Dombrow, 2015). At the same time, the escrow company acts as a third party so that the collection can be made for the accumulation of the funds as well as the documents that are involved in the closing process (Rodriguez & Dombrow, 2015).

The closing cost is the last step in the process of purchasing a home (Floyd & Allen, 2011). Closing costs are paid at the time of the closing of the real estate transactions. This is the point being termed as the closing costs because of the way the property is being conveyed and eventually transferred to the buyer. The other thing that is needed to be noted here is that the way the closing costs are being incurred by either the buyer or the seller at the point of the transaction (Perspective, 2016). There are many types of closing costs that are needed to be paid during the course of the real estate process (Perspective, 2016). One of the major costs that are being paid during the course of the whole process is an attorney fee. Attorney fees are paid by either the buyer or seller or both parties for the preparation and recording of official documents. The buyer and seller have the option to be represented by their own attorney. This action is typically required by either the institutional lenders or the commercial lenders to ensure documents are prepared correctly (Perspective, 2016).

Overall, closing the real estate transaction can be a long and tiresome process but can be a reward in the end. The buyer just has to make sure that his or her finances are in order and they are serious about purchasing a home. Once they make that determination, the ball gets to rolling, and the end result can only be the purchase of a brand new home for his or her family. Hopefully, the buyer has the financial assets to maintain the property that they have purchased, can pay it off in the number of years specified, and maybe pass it on to their children later on in life.

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