



SALES ASSOCIATE COURSE
CHAPTER 14

Real Estate Related Computations and Closing of Transactions



Title Closing -General-

- A few weeks after entering into a purchase and sale agreement
- The executory sales contract becomes executed
- The buyer pays the seller, and the seller delivers a deed to the buyer
- Handled by the closing agent, usually an attorney or title company
- Closing is the responsibility of the broker so they must check for errors

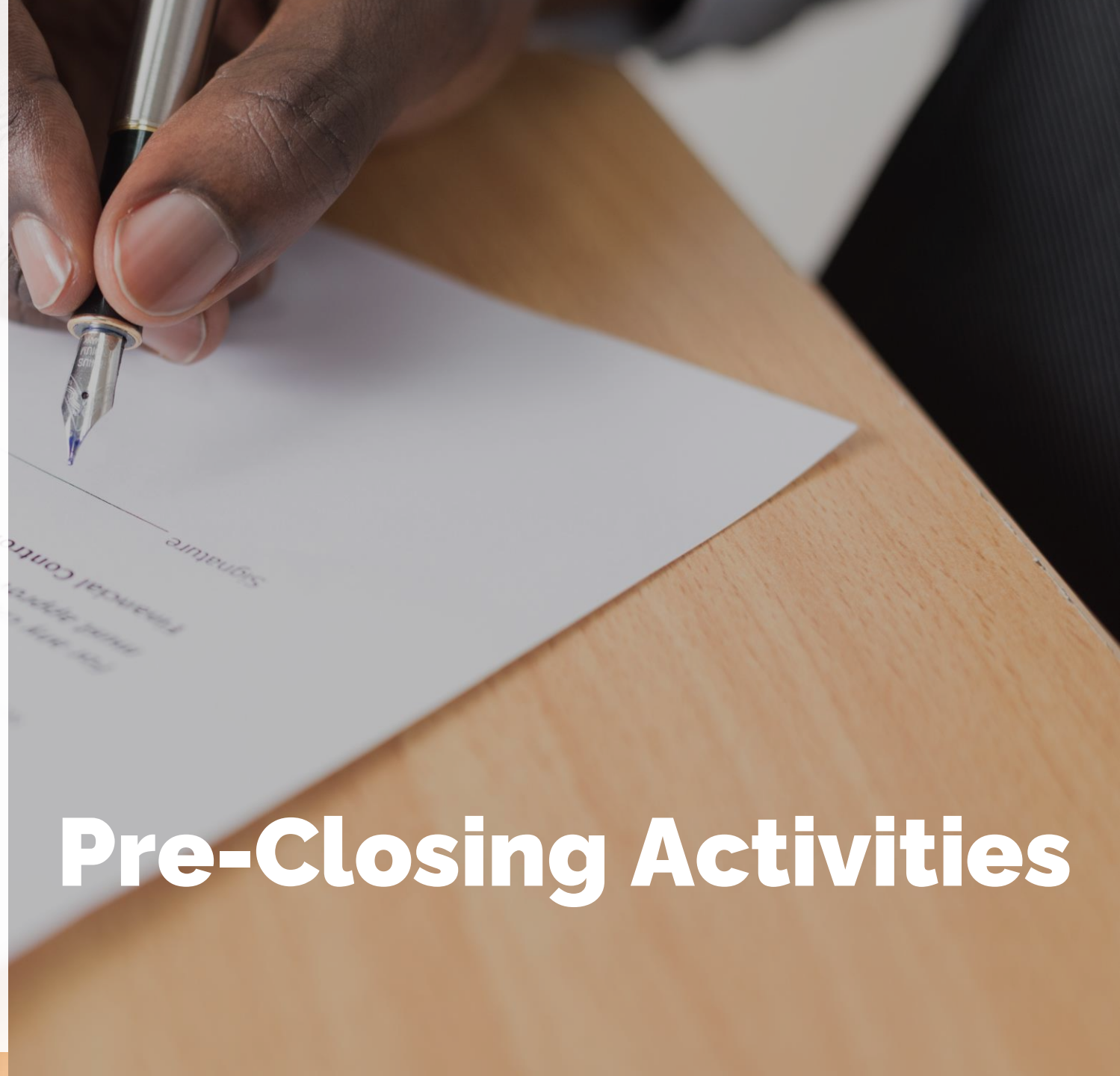


Closing Statement

- Summarizes the transaction
- Tells both the buyer and the seller, as of the day of the closing, how much money the seller will “take from” closing; how much the buyer has to “bring to” closing.



- Property survey
- Title search
- Release of existing liens and encroachments
- Home inspection including Wood Destroying Organisms (WDO)
- All necessary legal documents
- Homeowners or hazard insurance
- Final walk-through inspection
- Deed and other closing documents



Pre-Closing Activities



Closing Disclosure

Page 1

Summary of the buyer's loan and transaction

Page 2

Expenses payable to 3rd parties (single line entries - debits only)

Page 3

Prorations for amounts between the parties (double line entries - debits and credits)



Page 4

Additional information about the loan

Page 5

Definitions and lender information



Closing Disclosure



Debits and Credits

- **Debit** – second letter of debit is “e” which stands for expense. This is money you owe at closing.
- **Credit**- second letter of credit is “r” which stands for receipt. This is money you will receive at closing

Closing Worksheet - Sections

Section 1 - Total Purchase Price

| Seller's Statement | | Buyer's Statement | | |
|--------------------|--------|-------------------------------|-------|--------|
| DEBIT | CREDIT | | DEBIT | CREDIT |
| | | TOTAL PURCHASE PRICE | | |
| | | Binder Deposit | | |
| | | First Mortgage Balance | | |
| | | Purchase Money Mortgage (PMM) | | |
| | | Mortgage Payoff | | |

Total Purchase Price is a double line entry:

CREDIT Seller, DEBIT Buyer

Purchase Money Mortgage is a double line entry:
DEBIT Seller, CREDIT Buyer

Mortgage Payoff is a single line entry:

DEBIT Seller

Binder Deposit is a single line entry:

CREDIT Buyer

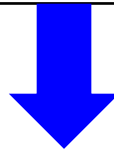
First Mortgage (New Mortgage) is a single line entry:

CREDIT Buyer

Closing Worksheet - Sections

Section 2 - Prorations and Prepayments

| Seller's Statement | | | Buyer's Statement | |
|--------------------|--------|--------------------------------------|-------------------|--------|
| DEBIT | CREDIT | PRORATIONS & PREPAYMENTS | DEBIT | CREDIT |
| | | Rent | | |
| | | Interest First Mortgage | | |
| | | Prepayment - Purchase Money Mortgage | | |
| | | Sales Concessions | | |
| | | HOA Fees | | |
| | | Taxes - City | | |
| | | Taxes - Country | | |



All Prorations & Prepayments are double line entries.
A Debit to the Seller is a Credit to the Buyer, & vice versa.

Closing Worksheet - Sections

Section 3 - Expenses

| Seller's Statement | | Buyer's Statement | | |
|--------------------|--------|-------------------------|-------|--------|
| DEBIT | CREDIT | Expenses | DEBIT | CREDIT |
| | | Abstract: Continuation | | |
| | | Attorney's Fee | | |
| | | Documentary Stamps | | |
| | | State Tax: Deed | | |
| | | State Tax: Mortgage | | |
| | | Intangible Tax Mortgage | | |
| | | Recording: Mortgage | | |
| | | Recording: Deed | | |
| | | Title Insurance | | |
| | | Brokerage Fee | | |
| | | Miscellaneous | | |



Expenses are DEBITS only

Closing Worksheet - Sections

Section 4 - Total: Debits and Credits

| Seller's Statement | | | Buyer's Statement | | |
|--------------------|--------|---------------------------|-------------------|--------|--|
| DEBIT | CREDIT | | DEBIT | CREDIT | |
| | | Total: Debits and Credits | | | |
| Balance Due | | | | | |
| | | To Seller | From Buyer | | |
| | | Grand Totals | | | |

Seller's Credits are usually more than Debits - Equals cash received at closing

Buyer's Debits are usually more than Credits - Amount Buyer brings to closing

Closing Worksheet - Sections

Section 5 - Broker's Statement

| Brokers Statement | | |
|-----------------------------------|----------|---------------|
| | Receipts | Disbursements |
| Binder Deposit | | |
| Balance due from buyer at closing | | |
| Brokerage Fee | | |
| Balance due seller at closing | | |
| Seller's expenses, less brokerage | | |
| Buyer's expense | | |
| New Mortgage Loan | | |
| Mortgage Loan Payoff | | |
| Grand Total | | |

Closing Worksheet

Section 5

Broker's Statement

| Brokers Statement | | |
|-----------------------------------|----------|---------------|
| | Receipts | Disbursements |
| Binder Deposit | | |
| Balance due from buyer at closing | | |
| Brokerage Fee | | |
| Balance due seller at closing | | |
| Seller's expenses, less brokerage | | |
| Buyer's expense | | |
| Other (New Mortgages) | | |
| Grand Total | | |

Section 1

Total Purchase Price

Section 2

Prorations and Prepayments

Section 3

Expenses

Section 4

Total: Debits and Credits

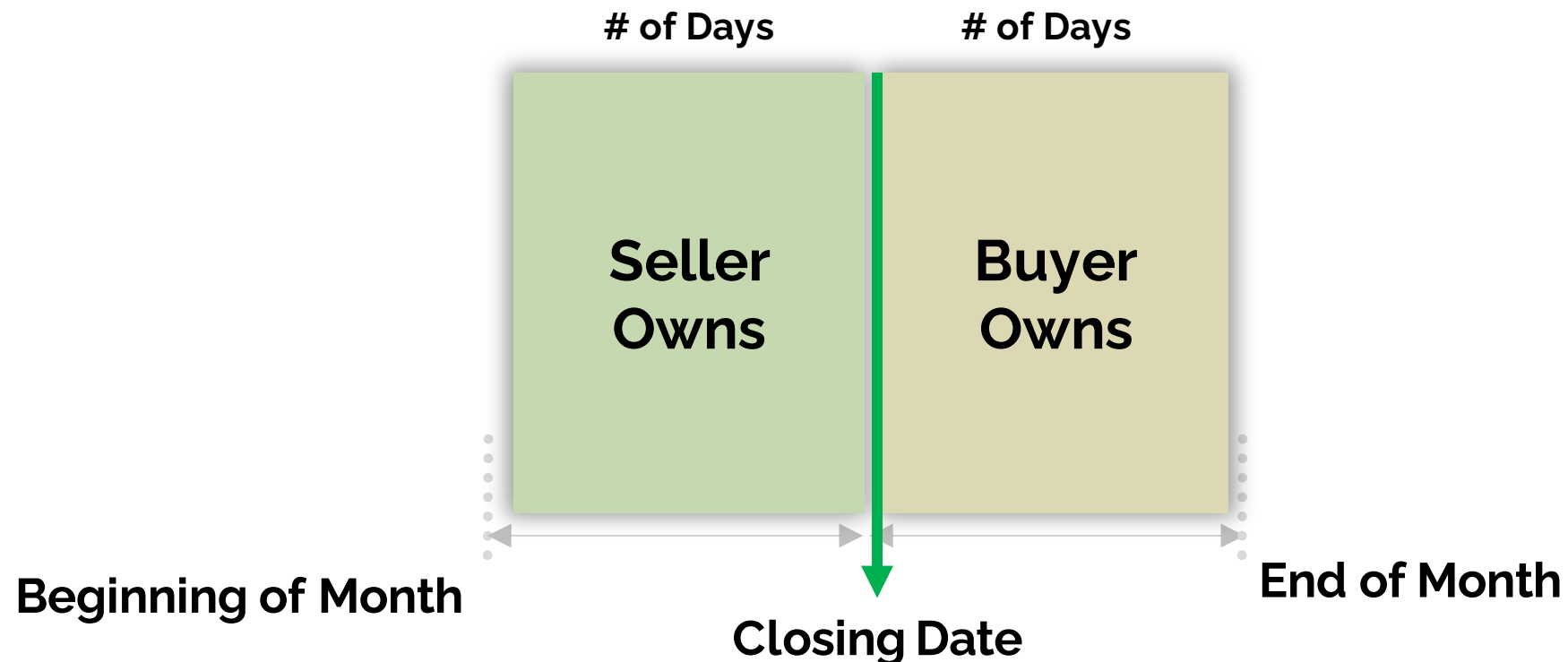
| Seller's Statement | | Buyer's Statement | | |
|--------------------|--------|-------------------------------------|------------|--------|
| DEBIT | CREDIT | | DEBIT | CREDIT |
| | | TOTAL PURCHASE PRICE | | |
| | | Binder Deposit | | |
| | | First Mortgage Balance | | |
| | | Purchase Money Mortgage | | |
| | | Mortgage Payoff | | |
| | | Prorations & Prepayments | | |
| | | Rent | | |
| | | Interest: First Mortgage | | |
| | | Interest: Second Mortgage | | |
| | | Prepayment: PMM | | |
| | | HOA Dues | | |
| | | Taxes: (City, County) | | |
| | | Sales Concessions | | |
| | | Expenses | | |
| | | Abstract: Continuation | | |
| | | Attorney's Fee | | |
| | | State Tax: Deed | | |
| | | State Tax: Mortgage | | |
| | | Intangible Tax | | |
| | | Recording: Mortgage | | |
| | | Recording: Deed | | |
| | | Title Insurance | | |
| | | Brokerage Fee | | |
| | | Miscellaneous | | |
| | | Total: Debits & Credits | | |
| | | Balance Due | | |
| | | To Seller | From Buyer | |
| | | Grand Totals | | |

Title Closing

Calculating Prorations

Time Line Method (who paid it, who will pay it or who has it)

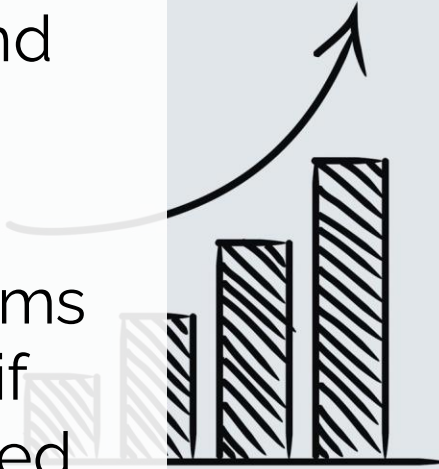
- Used to calculate your used or unused days



- FAR/BAR & CRSP Sale and Purchase Contracts read:

- Prorations – “The following recurring items will be made current (if applicable) and prorated as of the day prior to Closing Date.....” (Buyer is charged with the day of closing)

- Problem may state that "day of closing belongs to Seller" - then seller pays expenses & receives income for the day of closing.



Title Closing

- Calculating Prorations -

Business Company

123 consectetur ipsum vel
Fringilla nisl. Fusce 0029
Tel: 123-456-789-0
Fax: 123-456-789-1

Date: xx/xx/xx
Invoice No: 0000001
Customer ID: 223

Bill to: Curabitur suscipit, LTD
456 Pellentesque, Aliquet
2W st., SUO, 9999
987-654-321

| No. | Description | Quantity | Amount |
|------|-----------------------|----------|--------|
| 1234 | Id rutrum | 2 | 246.53 |
| 2567 | Sed interdum odio | 5 | 855.75 |
| 0034 | Pellentesque | 8 | 594.67 |
| 0400 | Maecenas molestie | 3 | 492.74 |
| 4729 | Integer varius nisl | 4 | 356.40 |
| 4930 | Integer varius nisl | 7 | 400.00 |
| 4893 | Quisque luctus turpis | 3 | 456.00 |

| Comment | Subtotal | 4500.45 |
|--------------------------------------------------|------------------|-----------------|
| Sed interdum odio vel molestie suscipit. | Tax Rate | 6.78% |
| Aliquet phasellus nulla nec lorem luctus varius. | Tax | 740.67 |
| Dolore auctor libero ac mollis efficitur. | Other | - |
| | TOTAL Due | \$241.12 |

Calculating Prorations



- Mortgage interest
 - Monthly
 - **Arrears**
- Real estate taxes
 - Annual
 - **Arrears**
- Rent
 - Monthly
 - **Advance**

Closing

Calculating Prorations: Rent (Prepaid)

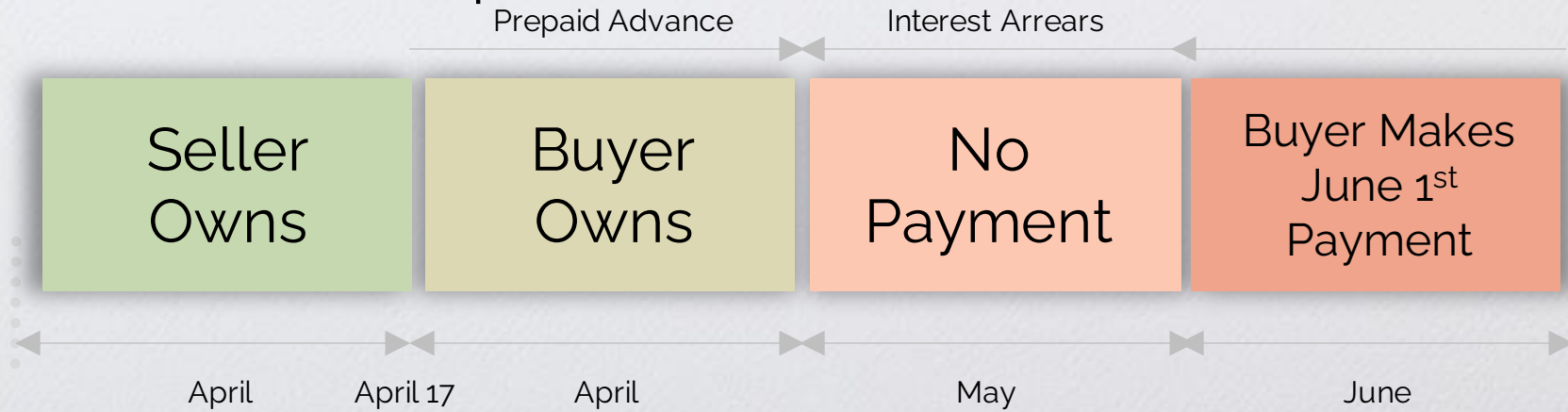
Rent for April is \$1000. Day of closing is April 17 and is allocated to the buyer. What is the amount of proration since April has 30 days?



$$\mathbf{\$1,000 / 30 \text{ Days} \times 14 \text{ Days} = \$466.67}$$

Debit Seller & Credit Buyer

New Loan - Prepaid Interest



Debit Buyer



Assumes Loan - Interest in Arrears



Debit Seller & Credit Buyer

Closing

Calculating Prorations: Property Taxes (Arrears)

Annual property taxes are \$5200. Day of closing is April 17 and is allocated to the buyer. What is the amount of tax proration using the 365-day method?

106 Days



Jan - 31 Days
Feb - 28 Days
Mar - 31 Days
Apr - 16 Days
106 Days

$\$5,200 / 365 \times 106 \text{ Days} = \$1,510.14$
Debit Seller & Credit Buyer

January 1st

April 17

December 31st

Taxes paid in ARREARS

- History of Title
- Assures marketable title
- Buyer usually pays for title insurance (negotiable)
- Seller cannot require use of particular title company unless seller pays



Abstract Continuation






Transfer Taxes

Seller { **S** $\frac{\text{Sale Price}}{100} = \text{Units}$  Whole Stamps x 0.70

Buyer { **I** .002 x New Loan Only

Buyer { **N** $\frac{\text{New \& Assumed Loans}^*}{100} = \text{Units}$  Whole Stamps x 0.35

* Not on "Subject to" mortgages

- Seller responsible to provide marketable (clear) title
- Buyer usually pays for title insurance (negotiable)
- Seller cannot require use of particular title company unless seller pays
- Title insurance not a legal requirement
- Buyers lender requires title insurance to protect lenders interest



Title Insurance



Coffee Break

15 Minutes