



PREMIER SETTLEMENTS & TITLE

May 2018 Newsletter

When the housing crisis and economic recession hit, it put many prospective homebuyer's plans on hold, forcing those considering purchasing a home into the rental market. Now, as the economy continues to improve, some of those renters are looking to own.

However, there are many factors to consider when buying a home. When it comes to the closing process, it is a good idea to know the terminology that will be discussed. This can help make the situation much more comfortable and professional for all parties involved. Below are some of the terms that may be discussed during the closing process.

5 Mortgage Closing Terms Every Buyer Should Know

1. Annual Percentage Rate (APR)

This term reflects the cost of all credit and finances as determined by the length of a year, including the interest rate, points, broker fees, and other credit charges obligated to the buyer.

2. Private Mortgage Insurance (PMI)

PMI is typically required if a borrower put a down payment that is less than 20 percent of the home's value. The charge is usually included in the monthly mortgage payment in an attempt to protect the lender from possible default.

3. Down Payment

Like many transactions involving large sums of money, the mortgage process involves a down payment – the amount a homebuyer pays in order to make up the difference between the purchase price and the mortgage amount. Some experts advise no less than 10 to 15 percent. However, with the economy still weary and lenders still stringent, any amount over 20 percent of the purchase price is recommended, and is often required to avoid having to pay for private mortgage insurance (PMI).

4. Closing Cost

Closing costs may also be referred to as transaction costs or settlement costs and may include various fees and charges associated with finalization. These may include or be related to application fees, title examination, title insurance, property fees, as well as settlement documents and attorney charges. The Real Estate Settlement Procedures Act ensures that the borrower receives a good faith estimate of closing costs within three days of application from the lender, which states in detail each expected cost.

5. TRUTH-IN-LENDING DISCLOSURE (TIL)

Required by federal law, the Truth-In-Lending Disclosure explains all lender required costs for the loan including, but not limited to the annual percentage rate, the terms of a loan and the amount and due dates of all payments necessary repay the loan.



Mail-Away Closing Tips

As opportunities for real estate transactions expand across county and state lines, the frequency of mail-away closings are increasing. If you are involved in a closing that requires the mailing of documents, here are some things that can help you avoid delay.

- Inform your closing agent of the need to mail documents as soon as possible. This will allow them to better coordinate the document preparation and signing process with the lender.
- Be aware that many lenders have specific closing practices that may differ from local customs. Not all lenders allow documents to be signed in advance of the closing date, and some require that the documents be signed in the presence of an attorney or title officer at a local title company office.
- Provide your closing agent with a physical address and the best phone number for each party involved in the transaction. Most overnight delivery services will not deliver to a PO box.
- Allow sufficient turnaround time for the documents to be signed. This may decrease the change of funding delays due to errors in the signing process. In order to disburse funds on a transaction, your closing agent may require the original documents to be returned and in their possession. Typically, the minimum time required to send and receive documents is three (3) business days.

What is a 1031 Exchange

Overview

When you sell an investment or income-producing property, you will be required to pay capital gains taxes on that sale (the current capital gains rate is either 15 or 20 percent). If you would like to use the proceeds from the sale to invest in replacement properties, you'll find that the tax debt has reduced

your buying power. In this situation, you should consider a 1031 exchange.

A 1031 tax-deferred exchange allows owners of property held for productive use in a trade or business, or for investment, to defer capital gains by "exchanging" their property for another that is "like-kind". All real estate in the US is like-kind, and can be exchanged if they are used in business or held for income investment. For instance, you may exchange a rental home for a small commercial building, or a vacant lot for an apartment building. Your personal residence would not qualify.

Requirements

The IRS regulations provide for a Qualified Intermediary to properly document the exchange and maintain compliance with the rules. The exchange transaction is not much different from the traditional sale of one property and purchase of another. The participation of the Intermediary streamlines the exchange process and ensures that the funds are handled properly.

The theory behind a 1031 exchange is that you have simply moved your investment from one property to another; therefore, all of the equity earned from the sale of your old property should be used toward the purchase of the new property. To obtain the maximum tax deferral, the replacement property must be equal to or greater in value and equity than the relinquished property. Remember, that it is possible to exchange multiple properties within one 1031 transaction.

Timing

A 1031 transaction has strict time limits that must be followed. Potential replacement properties must be identified within 45 days of closing the sale of your relinquished property. Additionally, you have a total of 180 days from the close of the relinquished property sale to the close of the replacement property acquisition.

The ability to defer taxes through a 1031 exchange is a powerful wealth-building tool. Your Qualified Intermediary can help you accomplish your goal.

