

CLOSING DISCLOSURE SUPPLEMENT-REVISED 12/22/15

THE CLOSING DISCLOSURE

The Closing Disclosure, which replaced the HUD-1 Settlement Statement for loan applications after October 3, 2015, provides an itemized listing of the funds payable at closing. Closing agents must prepare the Closing Disclosure for the parties to a federally related residential mortgage loan. Each item in the statement is assigned a separate number within a standardized numbering system. A blank Closing Disclosure is included at the back of this material.

The Closing Disclosure has five pages.

- Page 1 shows the parties, the property description, the lender, the settlement agent, and a recap of the Loan Estimate given at the time of application.
- Page 2 itemizes the settlement charges for each party, such as the broker's commission, loan closing costs, prepaid items, escrow account setup, title charges, and recording charges. Each item in the statement is assigned a separate number within a standardized numbering system. The totals for each party on page 2 are transferred to page 3.
- Page 3 shows additional information about the loan.
- Page 4 gives additional information about the loan.
- Page 5 shows loan calculations, and provide contact information for lender, broker, and settlement agent.

This course will emphasize Pages 2 and 3, which show the costs and the summary for each party.

CLOSING DISCLOSURE EXAMPLE

Claire Haskell has contracted to buy a home from Alfred Nickles. The closing date is April 15, with the day of closing charged to the buyers. The price of the property is \$125,000, and the buyer is financing the purchase with a new 7.5 percent loan for 90 percent of the purchase price. She gives the broker a \$5,000 binder check. The seller will pay off the existing first mortgage with a balance of \$74,298.60. The seller is to give the buyer a \$2,000 allowance for new carpeting. Annual property tax, estimated at \$1,750, is the only item to be prorated.

The lender requires that Haskell buy a hazard insurance policy and pay the annual premium (\$545). An escrow account is collected at closing for three months of taxes, two months of hazard insurance, and two months of private mortgage insurance. The first payment on the mortgage is due on June 1.

The buyer paid for the appraisal (\$300) at the time of loan application.

The seller has agreed to pay a 7% commission, a \$225 attorney's fee, documentary stamp taxes on the deed, and other items as discussed below.

Based on the following information, complete Pages 2 and 3 of the Closing Disclosure. A blank Closing Disclosure is at the back of this supplement.

Closing Disclosure-Page 2 - Closing Cost Details

Loan Costs – Borrower Paid

A- Origination Charges

01	Loan Discount—1% Of The Loan Amount	?
	(Loan Amount Times The Percentage: $\$112,500 \times .01 = \$?$)	
02	Loan Origination Fee—1 Point	?
	(Loan Amount Times Points: $\$112,500 \times .01 = \$?$)	

B- Services Borrower Did Not Shop For

01	Appraisal Fee POC* (Paid Outside Closing) \$300.00 Buyer	
02	Credit Report Fee	\$55.00
03	Tax Service Fee	\$59.00
04	Underwriting Fee	\$100.00
05	Document Preparation Fee	\$75.00
06	Courier Fee	\$13.00.

C- Services Borrower Did Shop For

01	Title Insurance For Lender	\$922.50
02	Title Insurance For Owner	\$475.00

Total All Loan Costs (A + B + C)

Other Costs

E- Taxes and Other Government Fees

01	Recording Fees (Deed \$6.00; Mortgage \$60.00)	\$66.00
02	Transfer Taxes	618.75
	Intangible Taxes On Mortgage (Loan Amount X .002)	\$225.00
	Documentary Stamp Tax On Note (Loan Amount/100 X .35 Times)	?

F- Prepays

01	Homeowner's Insurance Premium 1 Year Premium-State Farm	545.00
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03 Prepaid Interest From April 15 To April 30 ?

(Loan Amount Times Interest Rate Divided By 365 Times Number

$$\$112,500 \times .075 = \$8,437.48$$

$$\$8,437.48 \div 365 = \$23.1164 \text{ per day}$$

$$\$23.1164 \times 16 \text{ days} = ?$$

G- Initial Escrow Payment at Closing

01 Homeowner's Insurance \$45.42 x 2 months 90.84

02 Mortgage Insurance \$25.00 x 2 months ?

03 County property taxes (\$1,750) 7 mo. @ \$?/mo. ?

H- Other

01 Survey to All Corners Surveyor \$250.00

02 Pest Inspection to All Pest Control \$50.00

Total Other Costs (E + F + G + H)

Total Closing Costs (D + I)

B- Services Borrower Did Not Shop For

06 Courier Fee To First South Bank \$22.00

C- Services Borrower Did Shop For

03 Attorney's Fees To Jones & Smith Law Firm \$225.00

E- Taxes And Other Government Fees

01 Recording Fees (Satisfaction Of Mortgage) 6.00

02 Transfer Taxes Deed Stamps (\$125,000÷100 x .70 ?

H- Other

03 Commission paid to broker ?

(Sales price times commission rate of 7%)

Total All Loan Costs (A + B + C)	?
Total Other Costs (E + F + G + H)	?
Total Closing Costs (D + I)	?

Closing Disclosure-Page 3 - SUMMARIES OF TRANSACTION

SUMMARY OF BUYER'S TRANSACTION

K01	Sale price of property	125,000.00
K03	Closing costs paid at closing (J)	?
K	Due from borrower at closing	?
L01	Deposit	5,000.00
L02	Loan amount	112,500.00
	(Price times loan-to-value ratio: \$125,000 × .90)	
L06	Carpet allowance to buyer	2,000.00
L13 511	County Taxes 1/1/16 to 4/15/16	?
	(\$1,750 ÷ 365 days times number of seller days)	
L	Paid already by or on behalf of borrower at closing	?
Calc.	Total due from borrower at closing (K)	?
Calc.	Paid already by or on behalf of borrower at closing (L)	?
Calc.	Cash to close from borrower	?

SUMMARY OF SELLER'S TRANSACTION

M01	Sales price	\$125,000.00
M	Due to seller at closing	?
N02	Closing costs paid at closing (J)	?

N04	Payoff of first mortgage loan	\$74,298.60
N07	Carpet allowance to buyer	\$2,000.00
N15	County Taxes 1/1/16 to 4/15/16 (See calculation above at L13)	?
N	Due from seller at closing	?
Calc.	Total due to seller at closing (M)	?
Calc.	Total due from seller at closing (N)	?
Calc.	Cash to seller	?

Changes to the Broker Exam

If you studied for the questions on the broker exam that focused on the HUD-1 Settlement Statement, the test questions will change only slightly. The transaction summaries were formerly on page 1, and the closing costs were on page 2. Now, the closing costs are still on page two, but the transaction summaries are on page three. So, change your old practice answers from page 1 to page three and you'll be okay.

Look over the Closing Disclosure again. The expenses are on page 2. Carry the total expenses for each party at the bottom of page 2 to page 3. For test purposes,

- you must determine which party will be debited or a credited.
- you should know where the entry for items like purchase price, mortgage amounts, prorations, and expenses are shown on the statement *without having the statement available for reference*.
 - **Page 2** shows closing costs for both the buyer and the seller.
 - **Page 3** shows the transaction summaries, including the sales price, the mortgages, the deposit, the closing cost totals from page 2 and prorations.

Now, answer the following questions about the Closing Disclosure discussed above:

1. How much is the buyer's new mortgage and where does it show on the Closing Disclosure?
 - a. \$125,000; on page 3 on the borrower's side and the seller's side
 - b. \$125,000; on page 2 on the borrower's side and the seller's side
 - c. \$112,500; on page 3 on the borrower's side only
 - d. \$112,500; on page 3 on the borrower's side and the seller's side

2. How much are the government transfer taxes for the buyer and the seller and where does this information appear on the Closing Disclosure?
 - a. Seller \$784; Buyer \$616; page 2
 - b. Seller \$875; Buyer \$618.75; page 2
 - c. Seller \$875; Buyer \$616; page 2
 - d. Seller \$784; Buyer \$392; page 3

3. The binder deposit on the Closing Disclosure is
 - a. \$5,000 debit to the seller; page 3
 - b. \$5,000 credit to the buyer; page 3
 - c. \$5,000 debit to the seller; page 2
 - d. \$5,000 debit to the buyer; page 2

4. Where is the sales price placed on the Closing Disclosure?
 - a. Debit to the seller only; page 3
 - b. Credit to the buyer, debit to the seller; page 3
 - c. Debit to the buyer, credit to the seller; page 3
 - d. Credit to the seller only; page 2

5. What is the proration for taxes, and where does this information appear on the Closing Disclosure?
 - a. \$503.42 debit to the seller, credit to the buyer; page 2
 - b. \$498.63 debit to the buyer, credit to the seller; page 3
 - c. \$498.63 debit to the seller, credit to the buyer; page 3
 - d. \$498.63 credit to the buyer only; page 3

See the Closing Disclosure Solution on the following pages.

Closing Cost Details

Loan Costs	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges					
01 1.0 % of Loan Amount (Points)	\$1,125.00				
02 1.0% of Loan Amount (Origination Fee)	\$1,125.00				
03					
04					
05					
06					
07					
08					
B. Services Borrower Did Not Shop For					
01 Appraisal Fee (POC) to Lafayette Appraisers				\$20.00	\$300.00
02 Credit Report to Credit Bureau	\$55.00				
03 Tax Services to Transamerica Tax Service	\$59.00				
04 Underwriting Fee to First South Bank	\$100.00				
05 Document Preparation Fee to First South Bank	\$75.00				
06 Courier Fee to First South Bank	\$13.00		\$20.00		
07					
08					
09					
10					
C. Services Borrower Did Shop For					
01 Title Services to Jones & Smith (Lender)	\$922.50			\$225.00	
02 Title Services to Jones & Smith (Owner)	\$475.00				
03 Attorney Fees to Jones & Smith			\$225.00		
04					
05					
06					
07					
08					
D. TOTAL LOAN COSTS (Borrower-Paid)					
Loan Costs Subtotals (A + B + C)	\$3,949.50		\$245.00		\$300.00
Other Costs					
E. Taxes and Other Government Fees					
01 Recording Fees Deed: \$6.00 Mortgage: \$60.00	\$66.00		\$6.00		
02 Transfer Taxes	\$618.75		\$875.00		
F. Prepays					
01 Homeowner's Insurance Premium (12 mo.) to State Farm Insurance	\$545.00				
02 Mortgage Insurance Premium (mo.)					
03 Prepaid Interest (\$23.12 per day from 4/15 to 5/1)	\$369.86				
04 Property Taxes (mo.)					
05					
G. Initial Escrow Payment at Closing					
01 Homeowner's Insurance \$45.42 per month for 2 mo.	\$90.84				
02 Mortgage Insurance \$25.00 per month for 2 mo.	\$50.00				
03 Property Taxes \$145.83 per month for 7 mo.	\$1,020.81				
04					
05					
06					
07					
08 Aggregate Adjustment					
H. Other					
01 Survey Fee to All Corners Survey	\$250.00				
02 Pest Inspection to All Pest Control to All Pest Control	\$50.00				
03 Commission to Tillie Evans Realty			\$8,750.00		
04					
05					
06					
07					
08					
I. TOTAL OTHER COSTS (Borrower-Paid)					
Other Costs Subtotals (E + F + G + H)	\$3,061.26		\$9,631.00		
J. TOTAL CLOSING COSTS (Borrower-Paid)					
Closing Costs Subtotals (D + I)	\$7,010.76		\$9,876.00		\$300.00
Lender Credits					

Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Loan Estimate	Final	Did this change?
Total Closing Costs (J)	\$7,011	\$7,011	NO
Closing Costs Paid Before Closing	-0-	-0-	NO
Closing Costs Financed (Paid from your Loan Amount)	-0-	-0-	NO
Down Payment/Funds from Borrower	\$12,500	\$12,500	NO
Deposit	(\$5,000)	(\$5,000)	NO
Funds for Borrower			NO
Seller Credits	(\$2,000)	(\$2,000)	NO
Adjustments and Other Credits	(\$499)	(\$499)	NO
Cash to Close	\$12,012	\$12,012	NO

Summaries of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION

K. Due from Borrower at Closing

01	Sale Price of Property	\$125,000.00
02	Sale Price of Any Personal Property Included in Sale	
03	Closing Costs Paid at Closing (J)	\$7,010.76
04		

Adjustments

05		
06		
07		

Adjustments for Items Paid by Seller in Advance

08	City/Town Taxes	to	
09	County Taxes	to	
10	Assessments	to	
11			
12			
13			
14			
15			

L. Paid Already by or on Behalf of Borrower at Closing

01	Deposit	\$5,000.00
02	Loan Amount	\$112,500.00
03	Existing Loan(s) Assumed or Taken Subject to	
04		

Other Credits

06	Carpet Allowance to Buyer	\$2,000.00
07		

Adjustments

08		
09		
10		
11		

Adjustments for Items Unpaid by Seller

12	City/Town Taxes	to	
13	County Taxes	1/1/16 to 4/15/16	\$498.63
14	Assessments	to	
15			
16			
17			

CALCULATION

Total Due from Borrower at Closing (K)	\$132,010.76
Total Paid Already by or on Behalf of Borrower at Closing (L)	-\$119,998.63
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$12,012.13

SELLER'S TRANSACTION

M. Due to Seller at Closing

01	Sale Price of Property	\$125,000.00
02	Sale Price of Any Personal Property Included in Sale	
03		
04		

Adjustments

05		
06		
07		
08		

Adjustments for Items Paid by Seller in Advance

09	City/Town Taxes	to	
10	County Taxes	to	
11	Assessments	to	
12			
13			
14			
15			
16			

N. Due from Seller at Closing

01	Excess Deposit	
02	Closing Costs Paid at Closing (J)	\$9,876.00
03	Existing Loan(s) Assumed or Taken Subject to	
04	Payoff of First Mortgage Loan	\$74,298.60
05	Payoff of Second Mortgage Loan	
06		

Other Credits

07	Carpet Allowance to Buyer	\$2,000.00
08	Seller Credit	
09		
10		
11		
12		
13		

Adjustments for Items Unpaid by Seller

14	City/Town Taxes	to	
15	County Taxes	1/1/16 to 4/15/16	\$498.63
16	Assessments	to	
17			
18			
19			

CALCULATION

Total Due to Seller at Closing (M)	\$125,000.00
Total Due from Seller at Closing (N)	- \$86,673.23
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$38,326.77

Closing Disclosure Case Study Number 1

Jack and Susan Wilder, husband and wife, are purchasing a home located at 1021 94th Court, Jacksonville, FL 32217. The seller is Ellen Smith. The sale price is \$178,000. The Wilders will give the broker an earnest money deposit of \$6,000. The closing date of April 15 belongs to the buyer. The Wilders will finance the purchase with a new 80 percent loan-to-value mortgage. Property taxes for the year are estimated to be \$3,618 and will be prorated using the 365-day method. Other information about this transaction follows.

Buyer Wilder's expenses are as follows:

- Attorney's fee 330.00
- Title insurance 1,240.00
- Recording fee—deed 6.00
- Recording fee—mortgage 19.50
- Documentary stamp tax on note (calculate) _____
- Intangible taxes on new mortgage (calculate) _____
- WDO inspection 225.00
- Survey 400.00

Seller Smith's expenses are as follows:

- Brokerage commission at 6% 10,680.00
- Documentary stamp tax on deed (calculate) _____

Based on this information, please answer the following questions:

1. Where is the sales price placed on the Closing Disclosure?
 - a. Debit to the seller, credit to the buyer; page 3
 - b. Credit to the seller, debit to the buyer; page 3
 - c. Debit to the seller only; page 3
 - d. Credit to the seller only; page 2
2. How much are the government transfer taxes for the buyer and the seller and where does this information appear on the Closing Disclosure?
 - a. Seller \$1,246; Buyer \$498.40; page 2
 - b. Seller \$1,246; Buyer \$783.20; page 2
 - c. Seller \$1,246; Buyer \$996.80; page 2
 - d. Seller \$623; Buyer \$1,246; page 3
3. The binder deposit on the Closing Disclosure is
 - a. \$6,000 Debit to the seller; page 2
 - b. \$6,000 Credit to the buyer; page 3
 - c. \$6,000 Debit to the seller; page 3
 - d. \$6,000 Debit to the buyer; page 2

4. How much is the buyer's new mortgage and where does it show on the Closing Disclosure?
 - a. \$142,400; on page 3 on the borrower's side only
 - b. \$142,400; on page 2 on the borrower's side and the seller's side
 - c. \$178,000; on page 3 on the borrower's side only
 - d. \$178,000; on page 3 on the borrower's side and the seller's side

5. What is the proration for taxes, and where does this information appear on the Closing Disclosure?
 - a. \$1,030.88 debit to the seller, credit to the buyer; page 2
 - b. \$2,187.49 debit to the buyer, credit to the seller; page 3
 - c. \$1,030.88 debit to the seller, credit to the buyer; page 3
 - d. \$2,587.12 credit to the buyer, debit to the seller; page 3

Closing Disclosure Case Study Number 2

Using the following information, answer questions 1 through 5.

The seller is Stinson. The buyer is Flaherty. The closing date is July 20. Day of closing is charged to the buyer. Use the 365-day method for calculating prorations.

Selling Price	\$200,000.0
Binder deposit	0
New 75 percent first mortgage	10,000.00
Payoff of existing first mortgage	?
	\$47,893.43

Prorations:

City and county taxes	2,275.00
Annual association dues paid by seller January 1	650.00

Buyer's expenses:

Title insurance	650.00
Recording deed	6.00
Appropriate taxes on note and mortgage	?
Attorney's fee	300.00

Seller's expenses:

Brokerage fee	6%
Appropriate stamp taxes on deed	?
Attorney's fee	250.00

1. What is the proration for association fees and where will it show in the Closing Disclosure?
 - a. \$356.16 credit seller, debit buyer; page 2
 - b. \$356.16 credit buyer, debit seller; page 3
 - c. \$293.84 debit seller, credit buyer; page 3
 - d. \$293.84 credit seller, debit buyer; page 3
2. What is the brokerage fee and where does it appear on the Closing Disclosure?
 - a. \$12,000 seller and buyer; page 3
 - b. \$12,000 seller; page 3
 - c. \$12,000 seller; page 2
 - d. \$12,000 buyer; page 2
3. What are the total government taxes for note, mortgage, and transfer and where is this information found on the Closing Disclosure?
 - a. \$2,750; page 2
 - b. \$2,225; page 3
 - c. \$2,225; page 2
 - d. \$825; page 2

4. Where is the title insurance shown in the Closing Disclosure?
 - a. Seller; page 3
 - b. Buyer; page 3
 - c. Buyer; page 2
 - d. Seller and buyer; page 2

5. What is the tax proration and where does it show on the Closing Disclosure?
 - a. \$1,240.35 debit seller, credit buyer; page 2
 - b. \$1,246.58 debit seller, credit buyer; page 2
 - c. \$1,246.58 debit seller, credit buyer; page 3
 - d. \$1,252.81 debit seller, credit buyer; page 2

Closing Disclosure Case Study Number 3

Using the following information, answer questions 1 through 5.

Ms. Harrison is buying a rental house from Mr. Johnson. The purchase price is \$224,000. Ms. Harrison gave the broker a good-faith deposit of \$4,000. The broker has the listing on the property, and her commission is 7 percent.

Ms. Harrison will finance the purchase with a new 60 percent loan-to-value mortgage. Payoff of current loan including principal and interest is \$142,356.35.

The closing date is August 17, with the day of closing belonging to the buyer. Mr. Johnson had rented the property on June 1 for \$1,400 per month, and had collected the first and last month's rent, along with a security deposit of \$300. The rental payments are current. City and county taxes are \$1,947.09. Property tax proration should be made using the 365-day method. Mr. Johnson will furnish a warranty deed with required stamps attached.

Ms. Harrison has agreed to pay the documentary stamps on the new loan, and to pay for title insurance costing \$550. The cost to record the deed is \$7, paid by the buyer. Buyer's attorney fees are \$75, and the seller will pay \$60 for his attorney to review the documents.

1. What is the proration for property taxes and where will they show on the Closing Disclosure?
 - a. \$1,216.26 debit seller, credit buyer; page 2
 - b. \$1,216.26 credit seller, debit buyer; page 3
 - c. \$1,221.60 debit seller, credit buyer; page 3
 - d. \$1,216.26 debit seller, credit buyer; page 3
2. What are the documentary stamp taxes and intangible taxes on this transaction and where will they be found on the Closing Disclosure?
 - a. \$1,568.00 seller, \$739.20 buyer; page 2
 - b. \$739.20 buyer, \$1,568 seller; page 3
 - c. \$1,568 seller, \$1,836.80 buyer; page 2
 - d. \$701.60 buyer, \$1,568 seller; page 2
3. What is the amount of the new mortgage and where will it show on the Closing Disclosure?
 - a. \$134,400, debit seller, credit buyer; page 3
 - b. \$134,400 debit seller; page 3
 - c. \$134,400 credit buyer; page 3
 - d. \$134,400 credit seller, debit buyer; page 3
4. How much is the rent and security deposit debit and credit, and where will it appear on the Closing Disclosure?
 - a. \$2,522.58, credit buyer, debit seller; page 3
 - b. \$2,522.58, debit seller, credit buyer; page 3
 - c. \$2,577.42, credit seller only; page 3
 - d. \$2,377.42, debit seller, credit buyer; page 3
5. How will the payoff of the existing loan be shown in the Closing Disclosure?
 - a. Debit seller, credit buyer; page 3
 - b. Credit seller only; page 3
 - c. Debit seller only; page 3
 - d. Credit seller, debit buyer; page 3

Closing Disclosure Case Study Number 4

Using the following information, answer questions 1 through 5.

Mr. Hunt is selling his rental house to Mr. Skau for \$325,000, with a \$10,000 earnest money deposit given to the broker. Mr. Skau will finance the purchase with a 70 percent first mortgage. The transaction will close on October 16 with the day of closing charged to the sellers.

The house is rented for \$1,900, with the rent due on the first day of the month. Each tenant has paid a security deposit equal to one month rent. The rent proration should be calculated using the actual number of days in the month.

Mr. Hunt will pay the brokerage commission of 7 percent and the documentary stamp tax on the deed. Mr. Skau will pay title insurance of \$1,965, the \$400 survey cost, recording fees of \$68.50, required state taxes on the loans, and a hazard insurance premium of \$3,210.

Property taxes of \$4,012 for the year will be prorated between the parties using the 365-day method.

1. How is the insurance premium handled on the Closing Disclosure?
 - a. Debit seller, credit buyer; page 2
 - b. Credit seller; page 2
 - c. Debit seller; page 2
 - d. Debit buyer; page 2
2. What is the balance of the new mortgage and how will it be shown on the Closing Disclosure?
 - a. \$227,500; credit buyer, debit seller; page 3
 - b. \$260,000; debit buyer only; page 3
 - c. \$227,500; credit buyer only; page 3
 - d. \$227,500; credit buyer only; page 2
3. What is the tax proration, and how will it show on the Closing Disclosure?
 - a. \$3,176.62 debit buyer, credit seller; page 2
 - b. \$3,176.62 credit buyer, debit seller; page 3
 - c. \$835.38 credit buyer, debit seller; page 3
 - d. \$3,297.53 debit seller, credit buyer; page 2
4. What is the brokerage commission and how will it be shown on the Closing Disclosure?
 - a. \$22,750 debit to buyer; page 3
 - b. \$22,750 debit to seller; page 2
 - c. \$19,500 debit to seller; page 2
 - d. \$7,000 debit to buyer; page 3
5. Where is the total amount due from the buyer shown on the Closing Disclosure?
 - a. On the buyer's side at the top of page 3
 - b. On the buyer's side at the bottom of page 2
 - c. On the buyer's side at the bottom of page 3
 - d. On the buyer's side at the top of page 2

S U M M A R Y O F I M P O R T A N T P O I N T S

- A licensee must monitor all details of a transaction's closing, and has many tasks to accomplish between the contract date and the closing date.
- A checklist is one of the best ways to ensure that the licensee completes all tasks.
- Buyers and sellers expect the licensee to have reviewed all closing documents for completeness and accuracy. The broker is expected to have a complete understanding of closing statements and to be able to answer questions from the buyer or the seller.
- The IRS requires a buyer of property owned by a foreign investor to withhold 10 percent of the purchase price of the amount realized on the sale, and to deposit the sum with the IRS within 30 days. The sale of a personal residence is exempt if the amount realized is not greater than \$300,000.
- A debit to a party is a charge to the party, increasing the amount due from the buyer and reducing the amount due to the seller. A credit benefits the party, reducing the amount due from the buyer and increasing the amount due to the seller.
- Property taxes are normally paid in arrears and are usually prorated using the 365-day method. Entered on Page 3.
- Homeowners' association fees are normally paid in advance, and monthly fees are prorated based on the number of days in the month. Annual dues are prorated using the 365-day method. Because the seller paid the dues in advance, the buyer owes the seller for the unexpired portion of the dues. Entered on Page 3.
- Rent is usually paid in advance. Because the seller collected the full month, the seller owes the buyer for the amount of days left in the month. Entered on Page 3.
- Documentary stamp taxes on the deed are usually paid by the seller and are \$.70 per hundred or fraction thereof of the purchase price. Entered on Page 2.
- Documentary stamp taxes on the note are usually paid by the borrower and are \$.35 per hundred or fraction thereof of the loan amount. Entered on Page 2.
- Intangible taxes on the note are usually paid by the borrower, and are .002 of the note amount. Entered on Page 2.
- The Disclosure Statement has five pages; Pages 2 and 3 are important for test purposes.
 - Page 2 lists closing costs of the buyer or the seller.
 - Page 3 includes the purchase price, mortgages, proration, the total of expenses, as well as the total amount due from buyer and the total amount due to seller.

R E V I E W Q U E S T I O N S

1. If a homebuyer contracts to purchase a home and makes a \$1,000 check payable to the broker's trust account as an earnest money deposit, then
 - a. the broker must deposit it in his escrow account within three business days.
 - b. it reduces the amount due to the seller at closing by \$1,000.
 - c. it reduces the amount due from the buyer at closing by \$1,000.
 - d. both A and C are true.

2. As a cost of obtaining a real estate loan, one point equals one percent of the
 - a. purchase price.
 - b. title insurance premium.
 - c. appraised value.
 - d. loan amount.

3. A homebuyer has purchased a new home for \$435,000. She is financing the purchase with a new 80 percent mortgage and will pay cash for the balance. What is the total of the documentary stamp taxes and intangible taxes on the financing, and where will they appear on the Closing Disclosure?
 - a. \$1,914 debit buyer only; page 2
 - b. \$1,914 credit buyer only; page 2
 - c. \$4,959, debit buyer, credit seller; page 3
 - d. \$4,959 debit buyer only; page 3

4. The Closing Disclosure
 - a. must be used in all real estate transactions in Florida.
 - b. or the HUD-1 Settlement Statement may be used in a federally related transaction.
 - c. consists of two pages: the buyer's statement and the seller's statement.
 - d. is a five-page document.

5. In the Closing Disclosure
 - a. the broker's commission is shown on Page 3.
 - b. the seller's expenses are shown on page 2.
 - c. prorations of taxes are shown on page 2.
 - d. the amount due from the buyer is shown on page 2.

6. If the closing is on September 8 and property taxes are \$3,890, how will the property taxes be prorated and how will they appear on the Closing Disclosure?
 - a. \$2,664.38 credit seller, debit buyer; page 2
 - b. \$2,664.38 debit seller, credit buyer; page 3
 - c. \$2,675.04 credit buyer, debit seller, page 3
 - d. \$2,664.38 debit seller only; page 3

7. What is correct about homeowner's insurance coverage on an existing home?
 - a. The buyer normally assumes the seller's policy and pays the seller for the unexpired portion.
 - b. The lender requires the buyer to pay one full year's premium in advance.
 - c. If the loan-to-value ratio is less than 80 percent, the lender requires the buyer to pay one full year's premium in advance, then 1/12 of the premium monthly.
 - d. Arranging to purchase a policy within two days of closing is prudent on the part of the buyer.

8. The closing agent must provide Form 1099-S to the seller of a residence at closing
 - a. in all cases.
 - b. only when the property's sale price is greater than \$300,000.
 - c. if the seller is an alien resident of the United States.
 - d. unless the seller provides a written assurance that the full amount of the gain is tax free.

Using the information below, prepare prorations as needed and answer questions 9–15 on how the transaction would appear on the Closing Disclosure.

Purchase price of rental property	\$275,000.00
Brokerage commission—paid by seller	7%
Binder deposit given to broker	12,000.00
Closing date—September 15 (charge to the <i>buyer</i>)	
Prorating method—365-day	
Buyer will finance purchase with a new 80 percent mortgage	?
City and county property taxes paid in arrears	4,795.25
Homeowners' association fees paid in advance for the year	575.00
Rent paid by tenant to seller in advance for month	2,200.00
Security deposit paid by tenant to seller in advance	2,000.00
State taxes:	
Documentary stamps on deed—seller will pay	?
Documentary stamps on note—buyer will pay	?
Intangible taxes—Buyer will pay	?
Buyers' attorney fees	475.00
Title insurance—seller and buyer will split cost equally	3,425.00
Recording fees—buyer to pay	64.00

9. How is the first mortgage shown?
 - a. \$220,000 debit buyer only; page 3
 - b. \$220,000 credit buyer only; page 3
 - c. \$220,000 debit seller, credit buyer; page 3
 - d. \$275,000 credit buyer only; page 2

10. How is the brokerage fee handled?
 - a. \$19,250 credit seller only; page 3
 - b. \$19,250 debit seller only; page 2
 - c. \$19,250 debit seller, credit buyer; page 2
 - d. \$16,500 debit seller only; page 2

11. How is the binder deposit shown?
 - a. \$12,000 debit seller, credit buyer; page 3
 - b. \$12,000 credit buyer only; page 3
 - c. \$12,000 debit buyer only; page 3
 - d. \$12,000 debit seller, credit buyer; page 3

12. How is the title insurance handled?
 - a. \$1,712.50 credit buyer only; page 3
 - b. \$1,712.50 credit buyer, debit seller; page 3
 - c. \$1,712.50 credit buyer only; page 3
 - d. \$1,712.50 debit buyer, debit seller; page 2

13. What is the proration for property taxes?
 - a. \$3,376.38 debit seller only; page 3
 - b. \$3,376.38 debit seller, credit buyer; page 3
 - c. \$3,376.38 debit buyer only; page 2
 - d. \$3,389.52 debit seller, credit buyer; page 3

14. What are the documentary stamp taxes and intangible taxes on the deed and mortgage?
 - a. Debit seller \$1,925, credit buyer \$1,925; page 3
 - b. Debit seller \$1,925, debit buyer \$1,210; page 2
 - c. Credit seller \$1,925, credit buyer \$1,210; page 3
 - d. Debit seller \$1,925, debit buyer \$1,980; page 3

15. How is the proration of homeowner fees handled?
 - a. Credit seller, debit buyer \$170.14; page 3
 - b. Debit seller, credit buyer \$404.86; page 3
 - c. Debit seller, credit buyer \$170.14; page 3
 - d. Credit seller, debit buyer \$404.86; page 3

CLOSING DISCLOSURE SUPPLEMENT ANSWER KEY

Practice Closing Statement - Solution

1. (C) Purchase price of \$125,000 x .90 LTV = \$112,500. Mortgage amount is on Page 3.
2. (B) Debit seller: doc stamps on deed = \$875 ($\$125,000 \div 100 \times .70$)

Debit buyer: doc stamps on note = \$393.75 ($\$112,500 \div 100 \times .35$)
Intangible tax on mtg = \$225.00 ($\$112,500 \times .002$)
Total for buyer \$618.75
Expenses are shown on Page 2.
3. (B) \$5,000 binder deposit is shown on Page 3.
4. (C) \$125,000 sales price is shown on Page 3.
5. (C) \$498.63 is a debit to the seller and a credit to the buyer on Page 3.
(Annual taxes of $\$1,750 \div 365 \text{ days} = \$4.79452/\text{day} \times 104 \text{ seller days}$)

Statement Case Study Number 1 - Solution

1. (B) \$175,000 sales price is shown on Page 3 as a credit to the seller and a debit to the buyer.
2. (B) Debit seller: doc stamps on deed = \$1,246 ($\$178,000 \div 100 \times .70$)

Debit buyer: Mortgage amount is \$142,400 ($\$178,000 \times .80$)
doc stamps on note = \$498.40 ($\$142,400 \div 100 \times .35$)
intangible tax on mtg=\$284.80 ($\$142,400 \times .002$)
Total for buyer \$783.20
Expenses are shown on Page 2.
3. (B) \$6,000 binder deposit is shown on Page 3.
4. (A) Purchase price of \$178,000 x .80 LTV = \$142,400. Mortgage amount is on Page 3.
5. (C) \$1,030.88 is a debit to the seller and a credit to the buyer on Page 3.
(Annual taxes of $\$3,618 \div 365 \text{ days} = \$9.91233/\text{day} \times 104 \text{ seller days}$)

Closing Statement Case Study Number 2 - Solution

1. (D) Annual dues of $\$650 \div 365 = 1.78082 / \text{day} \times 165 \text{ days remaining in year} = \293.84 Buyer owes seller for unexpired portion, so credit seller, debit buyer. Shown on Page 3.
2. (C) Brokerage fee is \$12,000 (Price of \$200,000 x .06) Debit seller only. Shown on Page 2.
3. (C) Purchase price is \$200,000; Mortgage amount is \$150,000 ($\$200,000 \times .75$)

Debit seller: doc stamps on deed = \$1,400 ($\$200,000 \div 100 \times .70$)
Debit buyer: doc stamps on note = \$ 525 ($\$150,000 \div 100 \times .35$)
intangible tax on mtg= \$ 300 ($\$150,000 \times .002$)

Total for both parties= \$ 2,225
Expenses are shown on Page 2.

- 4 (C) Title insurance is shown on the buyers' side on Page 2
5. (C) \$1,246.58 is a debit to the seller and a credit to the buyer on Page 3.
(Annual taxes of \$2,275 ÷ 365 days = \$6.23288 / day x 200 seller days)

Closing Statement Case Study Number 3 - Solution

1. (D) \$1,216.26 is a debit to the seller and a credit to the buyer on Page 3.
(Annual taxes of \$1,947.09 ÷ 365 days = \$5.33449 / day x 228 seller days)
2. (A) Purchase price is \$224,000; Mortgage amount is \$134,400 (\$224,000 x .60)
Debit seller: doc stamps on deed = \$1,568.00 (\$224,000 ÷ 100 x .70)
Debit buyer: doc stamps on note = \$ 470.40 (\$134,400 ÷ 100 x .35)
intangible tax on mtg = \$ 268.80 (\$134,400 x .002)
Total for buyer \$ 739.20
Expenses are shown on Page 2.
3. (C) Mortgage amount is \$134,400 (\$224,000 x .60), credit buyer only; Page 3.
4. (D) Rent proration is \$677.42 (\$1,400 monthly ÷ 31 days = 45.16129 / day x 15 days remaining)

Proration from above	\$ 677.42
Add last month rent	\$1,400.00
Add security deposit	<u>\$ 300.00</u>
Total	\$2,377.42 debit seller, credit buyer, Page 3.
5. (C) Existing loan payoff will reduce the seller's proceeds, so debit seller. Shown on Page 3.

Closing Statement Case Study Number 4 - Solution

- 1 (D) The new insurance premium is a debit to the buyer, shown on Page 2.
- 2 (C) Mortgage amount is \$227,500 (\$325,000 x .70). Credit buyer only. Shown on Page 3.
- 3 (B) \$3,176.62 is a debit to the seller and a credit to the buyer on Page 3.
(Annual taxes of \$4,012 ÷ 365 days = \$10.99178 / day x 289 seller days)
- 4 (B) \$22,750 debit to the seller, shown on Page 2. (Sale price of \$325,000 x 7%)
- 5 (C) The total amount due from the buyer is shown at the bottom of Page 3 on the buyers' side.

Answers to End-of-Chapter Review Questions

1. (D) The FREC rules require that the buyer's good-faith deposit be placed in the bank no later than three business days after receipt of the funds. The buyer's earnest money deposit reduces the amount due from the buyer at closing.
2. (D) One point equals 1 percent of the loan amount as a cost of obtaining a real estate loan.
3. (B) The answer is \$1,914 debit buyer only; page 2. (Note: Doc stamps on deed are not included in this question.) The mortgage amount is \$348,000.

Doc stamps on note =	\$1,218 (\$248,000 ÷ 100 x .35)
Intangible tax on mtg=	<u>\$ 696</u> (\$248,000 ÷ 100 x .002)
Total for financing	\$1,914
4. (D) The Closing Disclosure has five pages.
5. (B) The seller's expenses, as well as the buyer's expenses are shown on Page 2.
6. (B) \$2,664.38 is a debit to the seller and a credit to the buyer on Page 3.
(Annual taxes of \$3,890 ÷ 365 days = \$10.65753 / day x 250 seller days)
7. (B) Licensees should be aware that many lenders want the policy prepaid before the closing.
8. (D) The closing agent reports residential sales and exchanges on Form 1099-S. A transaction is not reported if the seller gives written assurance that the full amount of the gain is tax free.
9. (B) Mortgage amount is \$220,000 (\$275,000 x .80). Credit buyer only. Shown on Page 3.
10. (B) \$19,250 debit to the seller, shown on Page 2. (Sale price of \$275,000 x 7%)
- 11 (B) \$12,000 (given) credit buyer only; Page 3.
12. (D) \$1,712.50 (½ of \$3,425), debit buyer, debit seller, Page 2.
13. (B) \$3,376.37 is a debit to the seller and a credit to the buyer on Page 3.
(Annual taxes of \$4,795.25 ÷ 365 days = \$13.13767 / day x 257 seller days)
14. (B) Debit seller: doc stamps on deed = \$1,925 (\$275,000 ÷ 100 x .70)
Debit buyer: Mortgage amount is \$220,000 (\$275,000 x .80)

doc stamps on note =	\$ 770 (\$220,000 ÷ 100 x .35)
intangible tax on mtg=	<u>\$ 440</u> (\$220,000 x .002)
Total for buyer	\$1,210

 Expenses are shown on Page 2.
15. (A) Annual dues of \$575 ÷ 365 = 1.57534/ day x 108 days remaining in year = \$170.14
Buyer owes seller for unexpired portion, so credit seller, debit buyer. Shown on Page 3.

Closing Cost Details

Loan Costs	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges					
01 % of Loan Amount (Points)					
02					
03					
04					
05					
06					
07					
08					
B. Services Borrower Did Not Shop For					
01					
02					
03					
04					
05					
06					
07					
08					
09					
10					
C. Services Borrower Did Shop For					
01					
02					
03					
04					
05					
06					
07					
08					
D. TOTAL LOAN COSTS (Borrower-Paid)					
Loan Costs Subtotals (A + B + C)					
Other Costs					
E. Taxes and Other Government Fees					
01 Recording Fees Deed: Mortgage:					
02					
F. Prepays					
01 Homeowner's Insurance Premium (mo.)					
02 Mortgage Insurance Premium (mo.)					
03 Prepaid Interest (per day from to)					
04 Property Taxes (mo.)					
05					
G. Initial Escrow Payment at Closing					
01 Homeowner's Insurance per month for mo.					
02 Mortgage Insurance per month for mo.					
03 Property Taxes per month for mo.					
04					
05					
06					
07					
08 Aggregate Adjustment					
H. Other					
01					
02					
03					
04					
05					
06					
07					
08					
I. TOTAL OTHER COSTS (Borrower-Paid)					
Other Costs Subtotals (E + F + G + H)					
J. TOTAL CLOSING COSTS (Borrower-Paid)					
Closing Costs Subtotals (D + I)					
Lender Credits					

Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Loan Estimate	Final	Did this change?
Total Closing Costs (J)			
Closing Costs Paid Before Closing			
Closing Costs Financed (Paid from your Loan Amount)			
Down Payment/Funds from Borrower			
Deposit			
Funds for Borrower			
Seller Credits			
Adjustments and Other Credits			
Cash to Close			

Summaries of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION

K. Due from Borrower at Closing

- 01 Sale Price of Property
- 02 Sale Price of Any Personal Property Included in Sale
- 03 Closing Costs Paid at Closing (J)
- 04

Adjustments

- 05
- 06
- 07

Adjustments for Items Paid by Seller in Advance

- 08 City/Town Taxes to
- 09 County Taxes to
- 10 Assessments to
- 11
- 12
- 13
- 14
- 15

L. Paid Already by or on Behalf of Borrower at Closing

- 01 Deposit
- 02 Loan Amount
- 03 Existing Loan(s) Assumed or Taken Subject to
- 04
- 05 Seller Credit

Other Credits

- 06
- 07

Adjustments

- 08
- 09
- 10
- 11

Adjustments for Items Unpaid by Seller

- 12 City/Town Taxes to
- 13 County Taxes to
- 14 Assessments to
- 15
- 16
- 17

CALCULATION

- Total Due from Borrower at Closing (K)
- Total Paid Already by or on Behalf of Borrower at Closing (L)

Cash to Close From To Borrower

SELLER'S TRANSACTION

M. Due to Seller at Closing

- 01 Sale Price of Property
- 02 Sale Price of Any Personal Property Included in Sale
- 03
- 04

Adjustments

- 05
- 06
- 07
- 08

Adjustments for Items Paid by Seller in Advance

- 09 City/Town Taxes to
- 10 County Taxes to
- 11 Assessments to
- 12
- 13
- 14
- 15
- 16

N. Due from Seller at Closing

- 01 Excess Deposit
- 02 Closing Costs Paid at Closing (J)
- 03 Existing Loan(s) Assumed or Taken Subject to
- 04 Payoff of First Mortgage Loan
- 05 Payoff of Second Mortgage Loan

Other Credits

- 06
- 07
- 08 Seller Credit

Adjustments

- 09
- 10
- 11
- 12
- 13

Adjustments for Items Unpaid by Seller

- 14 City/Town Taxes to
- 15 County Taxes to
- 16 Assessments to
- 17
- 18
- 19

CALCULATION

- Total Due to Seller at Closing (M)
- Total Due from Seller at Closing (N)

Cash From To Seller