Closing Day Lingo to Learn

The moment has finally, truly, amazingly arrived: You're closing on a home! And if you're about to sign on the line that is dotted, you should be prepared to hear a whole lot of closing-related terminology that sounds a bit like "alphabet soup from another language," warns Cara Ameer, a Realtor® in Ponte Vedra, FL.

Even though you will probably have your real estate attorney, a rep from your lender, and your trusted Realtor nearby to explain the things you don't know, you don't want to look totally clueless, right? That's why we're taking aim at all those confusing terms and acronyms you will hear when you close on a home. You're welcome!

COE
You might hear your lender or agent speaking to you about the COE, which stands for "close of escrow." "They are simply discussing the date you will officially be the owner," explains Rhonda Fee, a Realtor in Pleasanton, CA. But what exactly is escrow, you ask? Read on.

Escrow
Think of this as a holding area for essential funds and important documents, maintained by an attorney or a representative from the title company (more on them below) as the details of the sale are ironed out. Once the sale is finalized, the escrow agent disburses the payments and documents accordingly. This is a good thing. There are many variations of escrow accounts, depending on the specifics of your deal. Let the pros explain the salient points of yours.

EMD
That's short for earnest money deposit—the funds buyers put down to prove to sellers that they're making a serious offer (typically 3% to 5% of the cost of the house), proving they're earnest about the deal, not just a tire-kicker. Earnest money is one of the more debated and misunderstood aspects of the home-purchase process. So what happens to this deposit? If all goes smoothly, it will be put toward the buyer's down payment and closing costs. But if the buyer backs out for no good reason, the seller generally keeps the EMD as a consolation prize. But sometimes there are legitimate reasons to back out, which leads us to…

Contingencies
There are the valid justifications that enable buyers to walk away from the deal and take their EMD with them. Contingencies must be removed for the deal to go through. For instance, if the buyers placed a 10-day inspection contingency on the purchase, that means for that period they have a right to hire a home inspector to check the house top to bottom for any glaring flaws. Upon the 10th day, if nothing major is found, the buyers will be asked to remove this stipulation in writing. Once the buyers have removed all of their contingencies, they have to go through with the purchase or forfeit their EMD.

Title insurance
How do you know for sure that a home seller really owns the place free and clear—and that they can sell it without some long-lost heir coming out of the woodwork to stake a claim? Enter title insurance, which offers protection against any competing claims to the home. As part of the process, the insurer will run a title search of public records, seeking loose ends such as liens against the property or fraudulent signatures on ownership documents. Note that there is separate title insurance to cover lenders and buyers, and you would do well to get a policy for yourself. It establishes that you can truly “take title” to the property as the legal owner, which is entered in public records.

CD
CDs aren’t just ancient music formats for playing your Motörhead collection. The term is short for “closing disclosure,” a document the buyer is required to receive three days before close. “It summarizes the buyer’s loan in terms of the breakdown of their mortgage payment and all fees that the buyer will need to bring,” Ameer says. Use this time wisely: The devil is often in the details, so if you see something that looks amiss, now is the time to ask your attorney or Realtor.

Cash to close
Cash to close includes the total amount of money buyers need on the big day to seal the deal. It’s typically 3% to 6% of the price of the home (that would be $2,539 on a $200,000 loan) and includes appraisal fees, title insurance, attorney fees, as well as the down payment and prepaid items such as any funds held in escrow.

Prorations
Prorating is when certain fees or taxes are divided to align with the time of ownership between the buyer and seller. For example, if annual property taxes on a home are $3,000 and the seller moves out one-third of the way through the year on April 1, they’re responsible for paying one-third of the taxes, or $1,000. The buyer pays the rest.

Credits
Credits add wiggle room to those closing costs to help cash-strapped home buyers seal the deal. If the buyer can’t quite come up with enough cash to close, the seller can agree to pay credits that could add up to 6% of the home’s sale price. Sellers benefit as well, in that this contribution is tax deductible (but don’t count on sellers offering credits in a hot market). Conversely, sellers may offer the home at a lower price to entice buyers but then ask for credits to defray closing costs on their end.

On record
“When you hear these words, it’s time to celebrate,” Fee says. “That means you officially own your new home.” Congratulations!

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