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12 Steps To Closing A Real Estate Deal

1. Open an Escrow Account

An [escrow](#) account is held by a third party on behalf of the buyer and seller. As a home sale involves multiple steps taken over a span of weeks, the best way to prevent either the seller or the buyer from being cheated is to have a neutral third party hold all the money and documents related to the transaction until everything has been settled. Once all procedural formalities are over, the money and documents are moved from the custody of the escrow account to the seller and buyer, thereby guaranteeing a secure transaction.²

2. Title Search and Insurance

A [title search](#) and [title insurance](#) provide peace of mind and a legal safeguard, so that when you buy a property no one else can try to claim it later, be it a spurned relative who was left out of a will or a tax collecting agency that wasn't paid its dues. A title search is an examination of public records to determine and confirm a property's legal ownership and find out which claims, if any, are on the property. If there are any claims, they may need to be resolved before the buyer gets the property.²

Title insurance is indemnity insurance that protects the holder from financial loss sustained from defects in a title to a property. It protects both real estate owners and lenders against loss or damage occurring from [liens](#), [encumbrances](#), or defects in the title or actual ownership of a property.

3. Hire an Attorney

While getting legal aid is optional, it's always better to get a professional legal opinion on your closing documents. The complex jargon in them can be difficult to understand even for well-educated individuals. For an appropriate fee, opinion from an experienced [real estate attorney can offer multiple benefits](#), including hints of any potential problems in the paperwork.³

In some states you may be required to hire an attorney to handle the closing. Check your state's laws.

4. Negotiate Closing Costs

From opening an escrow account to hiring a real estate attorney, all involved services and entities cost money that can snowball into a big amount. Home and pest inspections are crucial to prevent you from buying a property with hidden—and costly—problems, for example. But many such services take advantage of consumers' ignorance by charging high fees. Even fees for legitimate closing services can be inflated.⁴

[Junk fees](#), a series of charges that a lender imposes at the closing of a mortgage that are often unexpected by the borrower and not clearly explained by the lender, can be a big cost. [Junk fees include](#) items such as administrative

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fees, application review fees, [appraisal](#) review fees, ancillary fees, processing fees, and settlement fees. ⁵

If you're willing to speak up and stand your ground, you can usually get junk fees and other charges eliminated or at least reduced before you go to closing.

5. Complete the Home Inspection

A [home inspection](#), a physical examination of the condition of a real estate property, is a necessary step to know about any problems with the property and get a look at its surroundings. If you find a serious problem with the home during the inspection, you'll have an opportunity to back out of the deal, ask the seller to fix it, or have the seller pay for you to have it fixed (as long as your purchase offer included a [home-inspection contingency](#)).⁶

6. Get a Pest Inspection

A pest inspection is separate from the home inspection and involves a specialist making sure that your home does not have any wood-destroying insects, such as termites or carpenter ants. Pests can be devastating for properties made primarily of wooden material, and many mortgage companies mandate that even minor pest issues be fixed before you can close the deal.⁷

Even a small infestation can spread to become very destructive and, hence, expensive to fix. Wood-destroying pests can be eliminated, but you'll want to make sure the issue can be resolved for a reasonable cost (or for a cost the seller is willing and able to pay) before you complete the purchase. Pest inspections are legally required in some states and optional in others.⁷

7. Renegotiate the Offer

Even when your purchase offer has already been accepted, if inspections reveal any problems, you may want to renegotiate the home's purchase price to reflect the cost of any necessary repairs. You could also keep the purchase price the same, but try to get the seller to pay for repairs. Even if you're purchasing the property "as is," there is no harm in asking. You can also still back out without penalty if a major problem is found that the seller can't or won't fix.⁷

8. Lock in Your Interest Rate

Interest rates, including those offered on the mortgage, can be volatile and subject to change. Rates are subject to multiple factors, such as geographic region, kind of property, type of loan applied for, and the applicant's [credit score](#).

It is advisable if at all possible [to lock in the interest rate](#) for the loan in advance, instead of being at the mercy of market fluctuations, which could cause rates to rise before you finalize your property purchase.

Even a 0.25% rate rise can significantly increase your repayment amount and/or tenure.

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9. Remove Contingencies

Your real estate offer should be contingent upon the following five things:

- Obtaining financing at an interest rate not to exceed what you can afford
- The home inspection not revealing any major problems with the home
- The seller fully disclosing any known problems with the home
- The pest inspection not revealing any major infestations or damage to the home
- The seller completing any agreed-upon repairs

Such contingencies must be removed in writing by certain dates stated in your purchase offer, a process known as active approval. However, in some purchase agreements contingencies are subject to passive approval (also known as constructive approval), meaning that if you don't protest them by their specified deadlines, they are considered approved. It is crucial for buyers to understand their approval process and take the necessary actions by the required dates.⁶

10. Meet Funding Requirements

You most likely deposited [earnest money](#) when you signed the purchase agreement, which is a deposit made to a seller indicating the buyer's good faith, seriousness, and genuine interest in the property transaction. If the buyer backs out, the earnest money goes to the seller as compensation. If the seller backs out, the money is returned to the buyer.⁸

To complete your purchase, you'll have to deposit additional funds into escrow. As the original earnest money is generally applied to the down payment, it is important to arrange for the various additional payments, required at different times, before the deal is closed. Failure to do so can lead to the deal getting canceled, earnest money going to the seller, and you still being charged for the various services you used before the deal fell apart.⁸

11. Final Walkthrough

One of the last steps before you sign your closing papers should be to walk through the property one last time. You want to make sure that no damage has occurred since your last home inspection, required fixes have been executed by the seller, no new problems are found, and nothing has been removed that is included in the purchase agreement.²

Closing on a home can take anywhere from a week to 60 days, depending on the property type and whether you are paying cash or financing the purchase with a mortgage.²

12. Understand the Paperwork

Paperwork is critical to closing a property deal. Despite there being a stack of papers filled with complex legal terms and jargon, you should read all of it

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yourself. If you don't understand something, consult a real estate attorney. Your agent will also be helpful in making sense of any complex legal language.

Although you may feel pressured by the people who are waiting for you to sign your papers—such as the [notary](#) or the mortgage lender—read each page carefully, as the fine print can have a major impact for years to come. In particular, make sure the interest rate is correct and all other agreed terms, such as no [prepayment penalty](#), are clearly mentioned. More generally, compare your closing costs to the [good faith estimate](#) you were given at the beginning of the process and throw a fit about any fees you think are illegitimate.

The Bottom Line

Though it may seem like the closing process is a lot of complex work, it's worth the time and effort to get things right instead of hurrying up and signing a deal you don't understand. Be wary of any pressure to close the deal fast. Real estate agents and other entities helping you will want their cut, but they won't be around to care about the problems you could face in the long run from a bad deal.

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