


Industry Awareness

CHICAGO TITLE 

The Facts on Mid-Month vs. Month-End Closings

As the busy summer months approach, the sales and closing teams at Chicago Title are committed to ensuring that Realtors, lenders, builders and their clients continue to have a positive closing experience with every transaction.

Studies show that most people – while they may not recall the details of the closing – remember whether it was an overall positive or negative experience. By association, that closing experience reflects on the Realtor, lender or builder.

One way to increase the odds of a pleasant closing experience is to schedule closings at less busy times of the month. Still, the cliché “old habits die hard” really is true, and some real estate schools continue to teach that month-end closings are preferable to any other time of the month, even though that’s usually not the case. Below are several benefits to closing earlier in the month. You may want to share this bulletin with your clients and discuss your options before scheduling a closing.

Benefits of closing earlier in the month

One-month reprieve. While there’s no true financial benefit, buyers do go longer until their first mortgage payment is due. Instead of 31-33 days if they close at the end of the month, it may be as many as 45-60 days if your client’s close earlier in the month! For example, if your clients were to close on June 15, their first mortgage payment typically would not be due until August 1. Even though we know intellectually we’re paying about the same amount of interest regardless of when we close, most of us enjoy “skipping” one month’s payment!

Fewer funding problems. Money for closings comes in several forms, one of which is a wire transfer. When a bank is requested to “wire transfer” money to Chicago Title for a closing, the money does not travel directly from the transferring bank to Chicago Title’s bank but must negotiate its way through the Federal Reserve Bank system. This system, like the real estate industry, experi-

ences times of increased volume, which slows down the transfer process. These busy periods occur on Fridays and also at month-end. By closing at times other than these, you can avoid the Federal Reserve slowdown, which means everyone gets their money faster.

Another thing you might consider is avoiding a 9:00 a.m. closing time on a purchase money transaction. Wire transfers from lenders are typically sent out first thing each morning. Because these transfers must make their way through the Federal Reserve, it may take a few hours for any money to hit our Chicago Title bank account. West coast lenders pose an even greater delay due to the fact there is a 3 hour time difference. A wire transfer sent at 8:00 a.m. PST may not reach our bank until well after 11:00 p.m. EST.

Higher likelihood of getting figures in advance. As the month’s end draws near, the workload builds for mortgage lenders, real estate agents and title companies alike. All parties are under pressure to close on time. Earlier in the month, each professional involved in the transaction has less stress and more time to complete the necessary requirements for closing. Since fewer closings occur mid-month, lenders have more time to provide figures to the title company so a timely HUD settlement statement can be prepared and provided to all parties involved.

More closing choices. Closing earlier in the month means you’ll have a greater selection of closing dates and times and, a better chance of getting your preferred escrow closer and desired closing location. It’s also easier to reschedule a middle-of-month closing than one scheduled at month-end.

No more domino effect. Avoid the typical chain reaction. If a closing ahead of yours goes awry or runs long, there is a greater chance it will directly affect your closing on a busy day. On a less busy day earlier in the month, there may be more time between closings so you won’t even feel the effects. Furthermore, there is often-times more staff available to step in and make sure your closing is not delayed. Keep in mind, Friday is usually the

heaviest closing day and 4:00 p.m. is typically the most popular closing time. By scheduling Monday through Thursday earlier in the day, you can avoid the “domino effect”.

Lookin’ good. The smoother the closing, the better chance you’ll have to create a positive lasting impression as the cool, calm, and in-control professional, and earn the opportunity for repeat and referral business!

A common misconception

The settlement of a home sale is often scheduled at month-end because many buyers assume they’re cutting back the number of ownership days for which they must make interest payments on their mortgage. However, a lender collects interest, starting with the day of closing, for as long as the buyer has a mortgage on the home.

Mortgage interest is always collected in arrears to cover the previous month’s ownership. The first monthly payment made after closing applies to the first full month of ownership that comes between the settlement date and the date the first payment is due.

Example. If a closing occurs on July 31, the borrower pays prepaid interest for one day’s ownership in that month. If loan payments are collected once a month, the first mortgage payment will be due on September 1. However, if the borrower’s closing is on August 1, he will pay prepaid interest for 30 days of ownership in that month, but his first mortgage payment may not be due until October 1. During virtually the same amount of time – from July 31 through September 1, or from August 1 through October 1 – the borrower pays nearly the same amount of money.

Interest free day. One thing to consider is that many lenders regard the first day of each month as an “interest free day”. If a borrower closes on August 1, some lenders may charge zero days of interest for the month but, the borrower’s first mortgage payment will be due September 1. This is a great option if a borrower is short on cash to pay for closing costs. Not all lenders extend this offer, so have your borrower ask their lender if this is an option.

Interest credit. Some lenders also extend what is called an “interest credit” during the first 5 to 7 days of each month. If a borrower closes on August 3, a lender may decide to credit the borrower for 2 days of interest in that month but the first mortgage payment will be due September 1. This actually reduces the amount of money the borrower would owe at closing as the lender is extending credit for interest from the 1st of the month through closing. Again, this helps those borrowers who might be

struggling to come up with money to bring to closing.

Closings best suited for month-end

Despite all the talk of trying to schedule earlier in the month, there are still certain types of transactions that are best served by closing during the last week of the month.

FHA transactions. FHA allows lenders to calculate interest on a monthly basis. Therefore, checks to pay off an FHA mortgage in full must be received on the first day of the month in order to avoid accrual of another month’s interest to the seller. While it is beneficial in these transactions to settle as close to the end of the month as possible, it is advised that they not close on the very last day of the month. Having a one-day cushion is crucial to ensuring there’s enough time to complete the closing, receive funds from the lender, and transmit the payoff check to the lender by the first day of the month deadline.

Short on cash. Some homebuyers who find themselves short on cash needed to cover closing costs might prefer an end-of-month settlement. In such cases, it may be more attractive to the buyer financially to pay a small amount of prepaid interest by closing late in the month and then start making mortgage payments sooner. Keep in mind, however, that some lenders do extend an “interest free day” on the first day of each month, as well as, an “interest credit” during the first 5 to 7 days of each month, both of which options can assist borrowers who are short on funds. (See example above.)

First time homebuyers. People who are selling one home and then purchasing another do not save on interest costs by closing late in the month. They will either pay interest on the home they are selling, thereby reducing the amount of their net proceeds if they close late in the month, or pay more interest on their new loan if they close earlier in the month. The net effect is basically a “wash”. The only buyers who may actually save money by closing at the end of the month are renters. However, a renter whose closing gets delayed for any reason could be forced to pay another month’s rent, as well as, the prepaid interest for one month’s worth of ownership.