

## Understanding the Settlement Statement (HUD-1)

The HUD-1 is a form used by the settlement agent (also called the closing agent) to itemize all charges imposed upon a borrower and seller for a real estate transaction. It gives each party a complete list of their incoming and outgoing funds associated with the closing.

The statutes of the Real Estate Settlement Procedures Act (RESPA) require the form be used as the standard real estate settlement form in all transactions in the United States which involve federally related mortgage loans.

RESPA states you should be given a copy of the HUD-1 at least one day prior to settlement. At times, entries may still come in a few hours before a closing takes place. Most buyers and sellers study the statement on their own, with their real estate agent, and with the settlement agent to review the expenses. More times than not, however, when it is reviewed in detail, the more likely it is that errors will be detected. Thus, never assume that the closing agent presenting the statement is always correct. Mistakes happen and that is why it is so important to meticulously review each line item on the statement.

“Buyers” are referred to as “borrowers” on this form even though it may be used when there is no loan involved, such as in a cash transaction. It is the responsibility of the settlement agent to see that all charges on the HUD-1 are substantiated in writing and to see that all deposits and disbursements are made in accordance with the HUD-1.

With few exceptions, all costs are subject to agreement by the parties to the transaction. Meaning that the buyer may negotiate certain amounts or certain items associated with the purchase to be paid by the seller. With that said, there are “typical” costs associated with buyers and other costs associated with sellers. In terms of what each party will pay in closing costs, the following is a sample of standard closing costs:

**Buyers closing costs would include:** Loan Origination Fee, Appraisal Fee, Credit Report, Document Fee, Processing Fee, Underwriting Fee, Interim Interest, Hazard Insurance, Hazard Insurance Escrow, Property Taxes, Title Search, Title Insurance Binder, Attorney Fees, Title Insurance, Express Mail Fees, Deed Recording Fee, Survey Recording, Survey, and HVAC Inspection.

**Sellers closing costs would include:** Commission, Document Preparation, Express Mail, Deed Stamps, Release Fee, HVAC Inspection, Home Warranty, Home Repairs and Buyer Closing Costs.

Lenders may require the borrower to pay for certain items in advance and maintained in the lenders escrow account. Common escrow items would include property taxes, hazard insurance and occasionally, Home Owner Association (HOA) fees. Lenders may require anywhere from two to fourteen months of the annual escrow fee; and amounts collected by the lender will vary from one lender to another.

A few expenses will be shared between the buyer and the seller. The seller is responsible for paying prorated items from January 1<sup>st</sup> through the closing date and, accordingly, the buyer will pay from the closing date through the end of the year. To avoid surprises at the closing table, it's my recommendation that the settlement statement always be thoroughly reviewed.

Real Estate Talk is written by Dan Douglas, owner and broker-in-charge of Douglas & Company Real Estate, LLC. For questions or comments, please contact him at (803) 945-0301 or email at [dan@douglasandcompanyllc.com](mailto:dan@douglasandcompanyllc.com).