



Mid-Month vs. Month-End Closings

June 2004

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

Buying a home may be the biggest purchasing decision your clients make, and 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.

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 not usually the case.

With that in mind, we’d like to make this technical bulletin a reminder of the benefits of closing earlier in the month, as well as give examples of times when an end-of-the-month closing might be desirable. You may want to share this bulletin with your clients and discuss your options before scheduling the closing.

Reasons to close earlier in the month

There are many advantages for both client and Realtor when closings are scheduled throughout the month. Here are some of the best:

- **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 from one of its accounts to Land Title for a closing, the money does not travel directly from the transferring bank to Land Title’s bank but must negotiate its way through the Federal Reserve Bank system. The Federal Reserve Bank system, like the real estate industry, experiences times of increased volume, which slows down the wire transfer process. These periods of increased volume occur on Fridays before the close of the week’s business and also at month-end. By closing at times other than these, you can avoid the Federal Reserve slowdown.

- **Ease of scheduling.** Closing earlier in the month means you’ll have a greater selection

of closing dates and times. It’s also easier to reschedule a middle-of-the-month closing than one scheduled at month-end.

- **Higher likelihood of getting figures in advance.** Sandi Zimmerman, past president of CAR, states, “As the month’s end draws near, the workload builds for real estate professionals and mortgage lenders as all parties are under pressure by homebuyers trying 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 the closing.
- **Closer availability.** Closing earlier in the month means there’s a better chance of getting your preferred closer and desired location.
- **Ease of moving.** It’s easier for your clients to get a moving truck at a time other than the end of the month, when everybody else seems to be moving! Appointments for other moving-related services (carpet cleaning, for example) may be easier to book earlier in the month as well.
- **Celebrate!** Middle-of-the-month closings generally leave more time for celebration. Less stress on all parties means everyone’s more likely to be in a celebratory mood.
- **One-month “reprieve.”** While there’s no true financial benefit (see page 2), buyers do go longer until their first 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 clients close earlier in the month! If your clients were to close on August 15, for example, their first mortgage payment would not be until October 1. Even though we know intellectually we’re paying about the same amount regardless of when we close, most of us enjoy the feeling that we’re “skipping” one month’s payment!
- **Lookin’ good!** The smoother the closing, the better chance you’ll have to create a positive lasting impression as the cool, relaxed, and in-control real estate professional.
- **No more “domino effect.”** Avoid the typical chain reaction! If a closing ahead of yours goes bad, 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 don’t

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even feel the effects. Even if your closing immediately follows another that goes sour, there is a better chance mid-month that there will be an additional closer available to step in and make sure *your* closing is not delayed. (Keep in mind that many purchasers are now taking out both first and second mortgages, so it's not uncommon for a closing to go beyond the scheduled time.)

Other considerations to keep in mind: Fridays are usually heavier closing days than other days in the week, so closing Monday through Thursday generally means less congestion. And avoiding the 4:00 crunch may work to your benefit, as early morning closings typically don't suffer from the "domino effect."

A common misconception

According to Sandi Zimmerman, Broker/Owner of Prestige Realty Group in Castle Rock, the settlement of a home sale is often scheduled at the end of the month because many buyers assume they are cutting back the number of ownership days for which they must make interest payments on their mortgage financing.

However, Sandi continues to remind buyers that the time of the month when a transaction closes, whether at the beginning, middle, or end, has no bearing on the amount of interest owed. Generally, 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 mortgage 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.

For example, if a closing occurs on August 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 October 1. However, if the borrower's closing is on September 1, he will pay prepaid interest for 29 days of ownership for that month. But his first mortgage payment is not due until November 1. During virtually the same amount of time—from August 31 through November 1 or from September 1 through November 1—the borrower pays nearly the same amount of money.

Some lenders offer a closing credit to borrowers who close within the first five to seven days of the month. Remind your borrowers to ask their lender prior to scheduling the closing if this is something they offer.

Closings best suited to month-end

Despite all of the talk of trying to schedule closings earlier in the month, there are still

certain types of transactions that are best served by closing during the last week of the month.

One such type of transaction involves an FHA payoff. 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 (normally by an early afternoon cutoff time) in order to avoid accrual of another month's interest. While it is beneficial in these transactions to settle as close to the end of the month as possible (while avoiding the last day of the month for funding purposes), it is also important to make sure that there is enough time available to complete the closing, receive "good funds," and transmit the payoff check to the lender by the deadline. A delay at month-end could be costly to a seller paying off an FHA loan if it affects the ability to get a payoff to the lender by the cutoff time, or if the closing itself gets pushed past the end of the month.

Some homebuyers who find themselves short on cash needed to cover all closing costs might prefer an end-of-the-month settlement, says Sandi Zimmerman, because they lack the money needed to make a prepaid interest payment for all or most of one month's occupancy. In such cases, it may be more attractive to the buyer financially to pay a small amount of prepaid interest by closing at the end of the month, and then start making mortgage payments sooner.

But people who are moving from a home they own into a home they have purchased 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, 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, not homeowners, advises Sandi. However, renters whose closing is delayed for any reason (late delivery of funds, for example) could be forced to pay another month's rent as well as the prepaid interest for one month's worth of ownership.

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