

HOUSING SCENE LEW SICHELMAN

When's the best time to close, save cash?

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WASHINGTON – To milk all they can out of their final rent checks, first-time buyers often try to schedule their closings as close to the end of the month as possible. But there's another reason practically all buyers, not just rookies, prefer to settle up late in the month – interest.

The later you close, the less interest that's due the lender. And that means the less cash you'll need to bring to the table.

Mortgage interest is collected in arrears. Consequently, if the loan begins on the first of the month following the closing date, borrowers are required to pay at closing all the interest due from the settlement date until the end of the month. The fewer days left in the month, the less upfront interest that's due at settlement.

That's why perhaps 95 percent of all real estate closings take place during the last week of the month, many on the last day. After all, cash is a big consideration for most people.

But if a few hundred dollars extra won't put a dent in your budget, there are several good reasons to consider closing earlier. One is that fewer mistakes are made when closing agents aren't rushed because they are trying to accommodate everyone they can. Another is that you'll get better service.

And it's not just closing attorneys and escrow companies that are under the gun at the end of the month. It's everyone down the line – appraisers, surveyors, insurance agents, even lenders. And it's often a chain reaction, where an error by one settlement service provider is perpetuated by the next.

Of course, in today's market, no one is particularly overrun with business, even as a month draws to an end. But staffs aren't what they were during the boom times, either. So there are fewer professionals left to handle what little activity there is. Thus, the result is often the same – logjams.

Still, if cash is in short supply, closing as late in the month as you can makes economic sense. Just be ready for the rush to get you in and out the door.

At the same time, though, realize that the later you close, the sooner your first full mortgage payment will be due. Here's how it works: Say you close on Jan. 28. You'll have to pay three days worth of interest – the 29th, 30th and 31st – that ordinarily would be due with your February payment. It's called “odd days interest” or “prepaid interest.”

If you chose to close on Jan. 15, however, you'll owe 16 days worth of prepaid interest – from the 16th through the 31st. And if interest charges are running, say \$25 a day for simplicity purposes, the difference between three days' interest and 26 is \$400.

There's no real cost savings, of course. You either pay now or you pay later, so it's more of a cash flow item than a true savings.

Either way, though, your first payment won't be due until March. And because interest is collected in arrears, your March payment will include the interest owed February.

Because cash is an obstacle for many buyers, most lenders will grant a credit at settlement if the closing is held early

enough in the month. How early depends on the loan. If the mortgage is insured by the Federal Housing Administration or guaranteed by the Veterans Administration, you can usually receive a credit if you close by the seventh. If yours is a conventional mortgage, a credit is typically available if you settle by the 10th.

But lenders don't offer interest credit automatically, so you'll have to ask. And if the lender agrees, you'll pay a little less than you otherwise would at closing. But your first full payment will be due the following month instead of the month after that.

In other words, if you close on Jan. 6, you'll receive a credit of six days interest. If interest is \$25 a day, that means you'll need \$150 less at closing than you ordinarily would. But your first payment on the loan will be due Feb. 1 instead of March 1. And that could be problem if you are on a tight budget.

A full payment so soon after ponying up thousands of dollars at closing, not to mention reaching into your pocket to cover moving costs and utility company deposits, could present such a serious hardship that closing later in the month – and postponing that first payment for as long as possible – may be the proper course of action.

The day you choose to settle will affect only the amount of interest you pay, not the amount owed for property taxes or hazard insurance. No matter what time of the month you close, you'll have to come up with 14 months' worth of taxes and two months' worth of insurance.

If you are refinancing a conventional mortgage, the closing date won't matter, either. You'll still pay the same amount of interest whether you close on the eighth or the 28th. Just the calculations are different.

One stops on one day and the other stops on the next. So, if you close on Jan. 8, you'll pay eight days' interest on the old loan and 23 days' interest on the new one. If you settle on the 28th, you'll pay 28 days' interest on the old loan and three days' interest on the new one.

But if you are refinancing an FHA-insured mortgage, it's in your best interest – no pun intended – to pay it off at the end of the month rather than at the beginning because the FHA allows lenders to collect interest through the end of the month.

That rule works well for investors who buy mortgages on the secondary market and are guaranteed a full month's interest in any month that an FHA loan is paid off. But it amounts to double jeopardy for borrowers. Consequently, the later you close out an FHA-backed loan, the better.

If you close on your new loan on Jan. 25, for example, your old lender can collect only six extra days interest. But if you wait until Feb. 3, the old lender can collect 25 extra days of interest.

Either way, you'll be paying interest through the end of the month on both the old and new loan. But the later in the month you close, the less “double interest” you'll have to pay.

The closing date is so critical on FHA refinancings that some people who can't settle by the end of one month actually postpone settlement until the end of the following month.

Closing by the end of the month is always problematic, but it is especially so in December, when the holidays wreak havoc with work schedules. Granted, the real estate business has little to celebrate this year. Nevertheless, with all the parties, vacations and last-minute shopping, many businesses will be running with skeleton crews, if they are open at all.

Because Christmas falls on a Thursday this year, it's likely that three business days will be lost during Christmas week – Christmas Eve, Christmas day and the day after – and two or three more work days will be lost the following week – New Year's Eve, New Year's Day and Jan. 2.

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