

# **EXPLANATION OF THE HUD-1 Settlement Statement**

The Settlement Statement is the financial picture of the closing. All money deposited into the escrow account and the disbursements out of the escrow account must appear on the form. The Settlement Statement will show a detailed itemization of all the costs pertaining to the real estate sale or mortgage loan transaction.

In some areas, the settlement statement may be called the Closing Statement, the Settlement Statement, or the HUD-1 Settlement Statement or simply the HUD-1.

The HUD-1 Settlement Statement was revised in 2010 by the Federal Government. An Additional 3<sup>rd</sup> page was added and changes made in how the figures are disclosed. Federal Government regulations require the use of the 2010 HUD-1 Settlement Statement for any transaction that involves a federally related mortgage.

The settlement agent will generally use a federal HUD-1 or HUD-1a form for most closings. Although the HUD form is the most common form of Settlement Statement, the settlement agent may choose to use a less formal Settlement Statement for closings not governed by HUD regulations, such as cash transactions, commercial property closings or investment property closings. In our area, the HUD-1 Settlement Statement in use prior to 2010 is still being used for cash closings, commercial property closings or investment property closings.

In Ohio the settlement statement is prepared by the closing agent. A separate statement may be prepared for the seller and the buyer, or the statement may disclose both the sellers' and the buyers' charges on the same form. If charges shown on the Settlement Statement were already paid prior to closing, these charges will be shown on the statement in the inner columns as "P.O.C.", meaning "paid outside of the closing".

## **A breakdown explanation of the 2010 HUD-1 Settlement Statement follows:**

Be aware that "Buyers" are referred to as "Borrowers" on the actual HUD-1 form even though the HUD-1 form may be used when there is no loan involved, such as in a cash transaction. For better clarity, we will simply reference "buyers" and "sellers" as appropriate.

The 2010 HUD-1 Settlement Statement consists of three (3) main pages and a signature page. It sometimes will contain addendums that will carry forward additional information from the first 3 pages.

**Page 1** - Shows the summary of the transaction.

**Page 2** - Shows the details of most of the closing costs for the transaction,

**Page 3** - Shows a comparison of the Good Faith Estimate with the actual charges shown on the HUD-1 Settlement Statement and a breakdown of the terms of the Loan and the monthly payment.

**Page 4** - Provides an acknowledgement section for the parties to sign and approve the statement.

## **Page 1 of the HUD-1 Settlement Statement**

These sections contain the basic reference information about the transaction

**Section A** - Settlement Statement (HUD-1)

**Section B** - Type of Loan, File Number, Loan Number and Mortgage Insurance Case Number

**Section C** - Contains the following explanation of this form.

Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

**Section D** - Name and address of Buyer/Borrower

**Section E** - Name and address of Seller

**Section F** - Name and address of Lender

**Section G** - Property Location - includes brief legal description and property address

**Section H** - Settlement Agent Name and Address - and Place of Settlement

**Section I** - Settlement/Closing Date and/or Funding Date

The bottom portion of page 1 is divided into two columns:

**Section J and Section K** - These two sections give the financial summary of the transaction. Section J is the summary of the Buyers transaction and Section K is the summary of the Sellers transaction.

## **Section J - Buyers summary of the transaction**

The Buyers Summary of the transaction, is further broken down into numbered sections:

**Section 100** - Buyer's debits

**Section 200** - Buyer's credits

**Section 300** - Buyer's totals

**Section 100** - Gross Amount Due from Borrower - Shows what the Buyer **owes or the debits**, such as the purchase price of the home and the costs associated with the purchase..

**Line 101** - Contract Sales Price

**Line 102** - Personal Property, if any

**Line 103** - Settlement Charges to borrower - Reflects the settlement charges paid by the Buyer, which are itemized on Page 2 of the Settlement Statement and carried over from Line 1400.

**Line 104-105** - Additional lines to be used for any other amounts due from Buyer, that is not shown on the 2<sup>nd</sup> page of the HUD.

**Line 106, 107, etc** - Adjustments for items paid by seller in advance or miscellaneous charges not shown on Page 2.

**Line 120** - Gross Amount Due from Borrower - Total of what the Buyer owes, including all charges as carried over to line 103 from the 2<sup>nd</sup> page of the Settlement Statement.

**Section 200** - Amounts Paid by Or in Behalf of Buyer – This is the **credits** to Buyer, such as:

**Line 201** - Earnest money deposit made by Buyer

**Line 202** - The loan amount

**Line 203- 209, etc** - Any money owed to the Buyer by the Seller at time of closing, such as tax pro-rations from the Seller, Seller paid closing costs for Buyer, etc.. Also any lender credits to buyer for funds deposited, etc.

**Line 210-211** – Property Tax and assessment proration credits to buyer from seller.

**Line 212-219, etc** – Any additional credits to buyer from sellers or other sources.

**Section 300** - Is the totals of Line 120 and Line 220 carried to the bottom of the page -

**Line 301** - Is the same as Line 120.

**Line 302** - Is the same as Line 220.

**Line 303** - Is the total "cash" due from the Buyer at closing or in some cases Cash to Buyer. The buyer is expected to bring a cashiers check or other certified funds for this amount to closing, or arrange to have that amount wired to the Escrow Disbursement account of the Settlement Agent at or before the actual closing.

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## **Section K – Seller's Summary of Transaction**

The Sellers summary of the transaction, is further broken down into numbered sections.

**Section 400** - Seller's credits

**Section 500** - Seller's debits

**Section 600** - Totals

**Section 400** - Gross Amount Due to Seller - Reflects the credits due the Seller at closing:

**Line 401** - Contract sales price

**Line 402** - Personal Property

**Line 403-405** - Additional lines to be used for any other amounts to be credited to Seller and any money owed to the seller by the buyer.

**Line 406-416, etc.** - Adjustments from Buyer for items paid by seller in advance, which could include prepaid taxes or homeowners association dues, etc.

**Line 420** - Shows the total credits due to the Seller at closing.

**Section 500** - Reflects the charges or debits of the Seller.

**Line 501** - Excess Deposits, which would include any earnest money received from buyer directly paid to seller.

**Line 502** - Reflects the settlement charges paid by the Seller, which are itemized on Page 2 of the Settlement Statement and carried over from Line 1400.

**Lines 503,- 509, etc.** - Usually reflect the full payment amounts or partial release amounts of any mortgage loans or other liens still owed and encumbering the property. This would also include any seller paid closing costs for buyer and any agreed splits of closing costs.

**Lines 510- 519, etc.** - Adjustments for items unpaid by seller, which would include proration of property taxes and assessments, and rents or security deposits, or miscellaneous items to be charged to the seller and credited to the buyer, etc.

**Line 520** - Total debits due from the Seller at closing.

**Section 600** - Is the totals of Line 420 and 520 carried down to the bottom of the form.

**Line 601** - Same as Line 420

**Line 602** - Same as Line 520

**Line 603** - The total "cash" due to the Seller at closing. This total cash due to the seller is often referred to as the "Sale proceeds". If the seller would need to bring money in to close, this would be Cash from Seller.

The seller is expected to bring a cashiers check or other certified funds for any amount they would need to bring to closing. or arrange to have that amount wired to the Escrow Disbursement account of the Settlement Agent at or before the actual closing.

## Page 2 of the HUD-1 Settlement Statement

**This page of the settlement statement contains**

### **Section L - Settlement Charges**

Separate Buyer and Seller columns.

The Buyer's column is the 2nd column – the inner column

The Seller's column is the 3rd column – the outer column

Section L is further divided into numbered Sections 700 through 1300, and ends with Line 1400.

- Section 700** - Total Real Estate Broker Fees - Amount of commission to be paid to the real estate brokers and any Brokerage/Administrative Fees to real estate brokers.
- Section 800** - Items payable in connection with Loan - Discloses all loan-related costs such as origination fees and discount points, etc. These costs should match the Good Faith Estimate. This would also include appraisal fees, credit report fees and any other costs associated with the loan that are required by the lender which are provided by outside parties
- Section 900** - Items Required by Lender to be Paid in Advance - Items that the Lender requires be paid in advance, such as preliminary interest or the first year's hazard insurance premium and any upfront mortgage insurance that lender may require for your type of loan.
- Section 1000** - Reserves Deposited with Lender - Items that are required by the lender to be held in escrow, such as deposits for taxes and insurance. The lender will collect and hold these amounts for payment of future bills.
- Section 1100** - Title Charges - Title insurance costs and related charges for the closing services provided. These are charges payable to the title company, settlement agent, and/or their representatives. This section shows the actual premium charged for the title insurance and the amount of policy coverage provided.
- Section 1200** - Government Recording and Transfer Charges - The county recording fees and any transfer taxes owed for any Deeds to be recorded in the transaction.
- Section 1300** - Additional Settlement Charges – Any additional settlement charges, such as survey or pest inspection fees that do not specifically belong in the aforementioned sections.

**Line 1400** Total Settlement Charges - The total of charges for the Buyer and the Seller.

Buyer Total - Carried over to Page 1, Line 103.

Seller Total - Carried over to Page 1, Line 502.

## **PAGE 3 of the HUD-1 Settlement Statement**

### **Comparison of Good Faith Estimate (GFE) and HUD-1 Charges**

A chart that allows the borrower to compare the initial listed GFE cost disclosures with the actual, final costs disclosed in the HUD-1 and determines whether the fee tolerances have been exceeded. The comparison chart must be prepared using the exact information and amounts from the most recent GFE and the actual settlement charges shown on the HUD-1 Settlement Statement. Seller, lender, broker, and other credits are not individually accounted for in these charts, but only the fee displayed on the HUD-1 borrower column and POC items paid by borrower. *The loan originator is responsible for refunding tolerance violations.*

There are three separate sections:

### **CHARGES THAT MAY NOT INCREASE AT SETTLEMENT**

### **CHARGES THAT IN TOTAL MAY NOT INCREASE BY MORE THAN 10 PERCENT**

### **CHARGES THAT MAY CHANGE COMPLETELY.**

#### **CHARGES THAT CANNOT INCREASE**

This section lists the amounts in GFE Blocks 1 and 2, Line A, and Block 8, which correspond to the amounts shown on HUD-1 lines 801, 802, 803, and 1203. If there is a credit in GFE Block 2 or HUD-1 line 802, the credit should be entered as a negative number on the comparison chart. If the HUD-1 amount is higher than the corresponding amount disclosed in the GFE for any line item, the lender will be responsible for refunding the difference.

#### **Charges That Cannot Increase More than 10 Percent**

The sum of all amounts listed in this section cannot increase by more than 10 percent of the original sum of the amounts listed in the GFE. A description of each relevant charge included in GFE Blocks 3 and 6 are listed on separate lines in this section. For each charge included in GFE Blocks 4, 5, and 7, the total displayed in the block is used. For the vast majority of loans, line items in this chart will include the appraisal fee, credit report fee, tax service fee, flood certification fee, and up front mortgage insurance premium (including FHA premium or VA guarantee fee). If the borrower did not purchase owner's title insurance, then the item may either not appear in the 10% section, or the GFE and HUD-1 amounts may both remain blank. If the total for the HUD-1 is greater than the total for the GFE column, then the amount of the increase must be entered both as a dollar amount *and* as a percentage increase on the appropriate line. Additional lines may be added as necessary.

#### **Charges That Can Change**

The amounts listed in this section are not subject to a tolerance, meaning they can vary completely from the amounts disclosed on the GFE. The amounts shown in GFE Blocks 9, 10, and 11 should be entered here, as well as third party settlement services for which the borrower selected a provider other than one identified by the loan originator. Loan originators should be especially clear about marking which third party settlement services should be listed here so that the settlement agent does not believe a tolerance error has been made. Additional lines may be added as necessary.

#### **Loan Terms**

Shows the terms of the loan, including loan amount, interest rate, monthly payments, and monthly escrow payment account information. This final portion gives the borrower the opportunity to confirm that the loan received is the same as the one set forth in the GFE. Page 3 pertains only to the charges to the borrower and to loan information and is not

required to be given to the seller. The payment amount and interest rate should reflect only the amounts paid by the borrower.

For the escrow disclosure, each escrow item is disclosed. The disclosure does not warn borrowers that escrow payments may increase or decrease, and should therefore state only what the initial monthly escrow payment and the initial total monthly payment are.

### **HUD-1 Additions and Addendums**

Certain changes to the HUD-1/1A are permitted. These include: Adding an addendum page to break out line items when required by state law, government loan programs, or to assist regulatory agencies and investors to determine whether all finance charges are properly disclosed under TILA, adding a certification and signature lines for the borrowers, sellers, and closing agent, removing blank lines that are not needed, and making notations in the margins.

Once you are satisfied that the information shown on the HUD-1 Settlement Statement is complete and accurate, you will be asked to sign the statement, indicating your approval for the disbursement of funds in connection with the transaction. The Settlement Agent will also sign the HUD-1, certifying that the information shown is accurate and that disbursement of the funds will be made in accordance with the Statement.