What Is A Closing Disclosure?

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When buying property, whether residential, commercial, or land, a very common question from buyers is "how much money will I need to bring to the closing?" There are many factors that play into the financial piece of buying real property, and it is all shown on what is called a Closing Disclosure – also known as a "CD."

A Closing Disclosure is the accounting piece of a transaction – it is the breakdown of closing costs and credits for both the buyer and seller. The "CD" is created by a settlement agent or lender, who receives figures from all sides of the transaction and makes sure that it balances – what comes in must go out.

The first three pages of the CD contain the critical components and it is important to ensure that the information on these pages is accurate. On page 1, buyers and sellers will find the purchase price, loan amount, interest rate, and final cash to close, which is calculated on the subsequent pages. Click here to see the example used.

Page 2 breaks down the costs associated with the transaction, more details in Sections A through G. Sections A through C show fees related to your loan and bank fees – which is then subtotaled in Section D. Section E shows the recording fees to record the Deed and Mortgage. Again, these are the public documents that decipher ownership of the property. Sections E and F discloses insurance, creation of escrow, and prepayment of a year of homeowner's insurance, when applicable. And finally, Section G typically has miscellaneous costs like home warranties, real estate brokerage fees, etc. Section I subtotals Sections E through G, and then Section J adds the whole page to show the final amount of closing costs.

On page 3, readers can find a summary of the transaction. Section K, which is the top box, shows what the buyer OWES to buy the property – which typically entails the purchase price and the closing costs which is pulled over from page 2. Section L shows any credits that the buyer is receiving – which includes the loan amount, earnest money deposit, credits from the seller, and tax proration credits (taxes is a whole other topic to be covered on any other day but today).

So here’s the “easiest” part – take Section K (what is owed) and subtract Section L (what is being given) and this value is what the buyer will need to bring to close to purchase the property.

Page 4 shows loan disclosures about the buyer’s particular loan – whether there will be escrow; whether the loan can be assumed by another person, and other specific terms and conditions. And finally, page 5 shows all of the parties players involved in the transaction – the team that got the deal across the finish line.

Closing Disclosures are being prepared, changed, and reviewed by the lender, real estate agents, attorneys, and accountants from the time the property goes under contract until closing. So, rest assured, the document that is presented to buyers and sellers should be well vetted.