

DOES IT REALLY MATTER WHAT TIME OF THE MONTH YOU CLOSE ESCROW?

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If you ask most home buyers and even many real estate agents, they'll tell you that the best time of the month to close escrow is the end of the month, since the later in the month you close, the lower your closing costs will be. They'll also tell you that when you buy, you always get the first month free month without any mortgage payments.

But, as you'll see, both are actually misnomers.

The truth of the matter is that there really is no free lunch, which means that with one exception, it really doesn't matter what time of the month you close escrow. In the end, you'll pay exactly the same whether you close in the beginning middle, or end of the month.

It all has to do with the pre-paid interest charged by your lender. The earlier in the month you close, the higher your pre-paid interest .

So let's say that your new monthly mortgage payment (principal and interest) is going to be \$2,200. Over \$1,800 of that is interest, which is what your pre-paid interest for a full 30 days would be.

Now, as you may or may not recall, mortgages are paid in arrears. That's a fancy way of saying that you make your house payment on the first of the month to cover principal and interest due for the month that just passed.

If you close escrow Oct. 15, your first mortgage payment, which covers principal and interest for the month of November, isn't due until Dec. 1.

Well that takes care of November, but what about the interest that due for the portion of October that you owned the property? Well, that's where pre-paid interest comes into play.

When you sign your loan papers, you'll see an amount for pre-paid interest on your estimated closing statement, covering the number of days in October from the date your loan funds through the end of the month. Pre-paid interest is always calculated on a 30-day month (even if the month really has 28, 29, or 31 days).

If a full 30-days' interest is \$1,830, your pre-paid interest is \$61 a day. You're your loan on Oct. 1 and your pre-paid interest is a full \$1,830. Fund it Oct. 16 and it drops to \$976. Fund the last day of the month, and it's a mere \$61.

It doesn't take a math wiz to see that closing escrow at the end of the month could easily save you \$1,769 in closing costs. That's a pretty big chunk of change.

Well, as I said a few moments ago, there really is no free lunch. Let me explain why.

Remember that no matter what day in October you close, your first payment isn't due until Dec. 1. Close Oct. 1, and you'll have a two full months before a payment is due. Close escrow Oct. 31, and your first payment is due in about a month. Push things back one extra day – to Nov. 1, and suddenly your first payment isn't due until Jan. 1, which again gives you a full 60 days without a payment.

What's more, if you at the end of the month, you'll still have mortgage or rent expenses on your current home for the entire month, which will offset any perceived closing cost savings.

By closing escrow Oct. 1, you're through making payments on your previous home. Yes, you'll need to come up with an extra \$1,769 up front, but you'll have a full 60 days to replenish your coffers.

Close later in the month, and it'll certainly cost you less up front, but you'll probably drain an equivalent amount from your checkbook during the month to cover those current housing expenses.

So, by the time Dec. 1 rolls around, your checking account should be exactly the same regardless of which day of the month you close.

And as far as that notion that you get a month with no house payment whenever you buy, well, that too, is sadly a misconception. Even though you may have 60 days without actually writing out a house payment check, you're actually making that first payment up-front, as pre-paid interest in your closing costs.

And, since mortgages are paid in arrears, it will all even out when you finally sell, when your current lender collects the interest due from the beginning of that month until the close of escrow.

If you close escrow in October, even though the interest wouldn't normally be due until Nov. 1, you'll no longer own the home nor be responsible for the loan by that time. So the lender instructs the title company to collect that amount from you and include it as part of the final loan payoff.

Alas, there really is no free lunch. When all is said and done, it really doesn't matter whether you close early in the month or later in the month. By the time your first payment is due, it'll all even out.

About the only time the closing date can make a difference is if the buyer's cash flow situation is very tight. If you only have \$14,000 to apply towards your down payment and closing costs and are looking at \$13,750 to close at the end of the month or \$15,000 to close at the beginning of the month, then it probably makes sense for you close as late in the month as possible.

You really won't save any money. But it will allow everything to work financially. That's about the only time that closing escrow at the end of the month can make a difference – when it's the difference between having the cash necessary to close or not.

If you'd rather own it now but are willing to wait a month since that's the only way you can afford to buy, then certainly close escrow at the end of the month. But if you're planning to close later rather than sooner thinking that you're going to save money by doing so, put that notion to rest. Pick the date that works best for you and let the chips fall.

For in the end, it'll all work out the same: either come up with more cash up-front and have time to recoup it before your first payment is due, or come in with less cash initially but make your first payment that much sooner.

Either way, one thing is for certain: there really is no free lunch.

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