



Buyers & Sellers: How to Read Your HUD-1 Settlement Statement

The HUD-1 is the financial picture of the real estate closing. It shows all of the money transfers between the buyer and seller, as well as the closing costs, including the escrow and title fees and the costs of the buyer's loan, if applicable. The HUD-1 is a standardized form that the title company prepares for the closing, as required for all closings involving a federally insured lender under the Real Estate Settlement Procedures Act ("RESPA"). It is important to save your HUD-1 for your tax preparer. You will need it in the year of the purchase, as well as the year the property is sold. The HUD-1 form itself was created by the U.S. Department of Housing and Urban Development ("HUD") and is updated periodically.

What Does the HUD-1 Show?

The HUD-1 is a multi-part form, divided into sections by topic and divided into the buyer's side and seller's side. The buyer is referred to as the "borrower" because the HUD-1 was created to explain closings involving lender financing. However, the HUD-1 is also used in cash-only deals when closed by a title company or separate escrow company.

HUD-1 Sections A Through I: Reference and Identification Information

The top of the first page of the HUD-1 shows information about the parties, the mortgage, and the closing. The file number (Section B.6.) is the title company's file number. The loan number (Section B.7.) is the lender's account number for the loan.

HUD-1 Section J and K: Summaries of Costs and Credits

Sections J and K show the transactions between the buyer and seller, and summarize the fees and payments from Section L on the following page. Line numbers in the 100, 200, and 300 series pertain to the buyer. Line numbers in the 400, 500, and 600 series pertain to the seller.

The basic transaction between the buyer and seller is shown in the 100 and 400 line series – in other words, how much the buyer is paying for the house and in what form. The two sides (the buyer's side and the seller's side) generally mirror each other. The 100 series shows debits to the buyer and the 400 series shows corresponding credits to the seller.

The purchase price for the real estate is found in lines 101 and 401. Any additional purchase price for personal property sold with the real estate, if any, is found in lines 102 and 402.

You might notice that line 103 on the buyer's side, which is the total of all of the buyer's settlement charges shown in Section L, does not have a corresponding line on the seller's side. This is because the seller's settlement charges are deducted from the purchase price, rather than credited against the purchase price as on the buyer's side. The seller's settlement charges are found on line 502, where they are subtracted from the "Gross Amount Due to Seller" on line 420.

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The cost of new construction, when not included as part of the purchase price, is stated on line 104. The purchase price of a manufactured home when charged separately from the price of the land is stated on line 105.

Line 120 is labeled “Gross Amount Due from Borrower,” which is the sum of all the money laid out for the purchase price, the cost of all other purchases, and the total settlement charges. Correspondingly on the seller’s side, the total of the purchase price and other sums due from the buyer to the seller is shown on line 420 as “Gross Amount Due to Seller.”

The other lines in the 100 and 400 series are used for various reimbursements to the seller. If the contract requires the buyer to reimburse the seller for his or her prior payments that will benefit the buyer in the future, those figures are found in lines 104 through 105 and 404 through 405. For example, the buyer may be required to reimburse the seller for excess tax and insurance reserve accounts if the buyer assumes the seller’s loan, or the buyer may owe the seller tenant rents that are due prior to the closing, but remain unpaid and collectible on that date.

Similarly, the buyer may reimburse the seller for advance payments to third parties for flood insurance, or mortgage insurance if the buyer assumes the seller’s mortgage. These reimbursements are shown in lines 106 through 112.

Credits that reduce the dollar amount the buyer must bring to the closing are shown in the 200 series. The buyer’s earnest money credit appears in line 201, with the corresponding seller’s debit for earnest money on either line 501 or line 506. The latter depends on whether it is being brought to closing (find it on line 501), or all or part of the earnest money is being held by a broker as payment of commissions (find it on line 506).

The face amount of the first purchase money loan is shown on line 202. The amount of a seller’s loan assumed by the buyer is shown on line 203. Second purchase money mortgages, or home equity loans that are subordinate to the first purchase money loan, are shown on lines 205 through 209. If the seller pays for the owner’s title insurance policy, the buyer’s credit for the premium for the owner’s title insurance policy is shown on line 204, and debited to the seller on line 507.

Real property taxes and assessments that are proportionally divided (also called “prorated”) between the buyer and seller as of the closing date are shown on lines 210 through 212 on the buyer’s side, and lines 510 through 512 on the seller’s side. General real property taxes due, but not yet billed and payable, are credited to the buyer in lines 210 and 211, and debited to the seller in the corresponding 500 series lines.

Assessments are similarly credited and debited in lines 212 and 512, respectively. Any closing cost credit given by the seller to the buyer will appear in the 200 and 500 line series. Seller’s old loans paid off through the closing are shown on lines 508 and 509. If there are more payoffs, they can be shown on lines 513 through 519.

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The calculation of the sum of money the buyer must bring to the closing (called the borrower's "bottom line") is found in the 300 series. Everything due from the buyer that was totaled in line 120 is brought forward to line 301. All credits that reduce the amount due from the buyer are totaled in line 302, and then subtracted from line 301, resulting in the buyer's bottom line shown on line 303.

The seller's bottom line, in other words, the amount of money the seller will receive at the closing, is similarly calculated in the 600 series.

HUD-1 Section L: Detail of Settlement Charges for Buyer and Seller

Section L contains a long list of settlement charges. Charges shown in the left column are to be paid by the buyer, and charges shown in the right column must be paid by the seller. The settlement charges are grouped into the following line series:

- Line series 700 shows broker's commission, the amount of any deposit retained for commission, and how the commission will be divided among all of the brokers involved in the sale.
- Line series 800 shows loan charges, such as, the origination fee, points, and fees for third party services to the lender including the appraiser, the credit reporting company, tax servicers, and flood certification services.
- Line series 900 shows prepaid interest, mortgage insurance premiums, and homeowner's insurance.
- Line series 1000 shows tax and insurance reserves paid to the lender at the closing by those borrowers who are required to make monthly payments for these items directly to the lender. The number of months of reserves required by the lender varies, and can sometimes be negotiated depending on the type of loan and the borrower's financial situation.
- Line series 1100 shows title insurance and escrow fees, including premiums for the owner's and loan policy, the owner's policy premium (again, referenced in Sections J and K described above). Attorney's fees are also put into this line series.
- Line series 1200 list governmental charges for the recording of the deed and mortgage, and transfer taxes, which are often charged by the state, county, and municipality where the property is located.
- Line series 1300 is for additional third-party closing charges including inspectors' fees, surveyors' fees, and fees for additional escrow services, such as, a separate possession or repair escrow.

Compare the HUD-1 to the Good Faith Estimate

The buyer can use the HUD-1 to confirm that the actual loan and closing charges have not changed from the estimated charges the buyer was shown on the Good Faith Estimate (GFE). To make this task easier, the law requires the title company to reference line items on the GFE within the corresponding line items on the HUD-1.

Page 3 of the HUD-1 shows the detailed comparison. The law also prohibits increases in the loan origination fees, points, and transfer taxes from the amounts shown on the GFE, and requires that

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government recording charges, and charges for third-party services where the third-party is selected by the lender or the seller, such as appraisal fees, credit reporting fees, tax service fees, flood certifications, prepaid mortgage insurance, and title insurance premiums, never increase greater than 10% from the GFE.

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