A Buyer's Guide to Buying Real Estate

Introduction

This booklet has been prepared to give you an overview of the general process involved during the purchase/sale of a home and explain the various roles that we play in helping to close your transaction.

I hope you find this information beneficial in making your transaction and closing experience a smooth and positive one!

Important Contacts For Your Transaction

Real Estate Agent

Name: ___________________________

Company: _______________________

Address: _________________________

City/State/Zip: ____________________

Phone: ___________________________

Fax: _____________________________

Email: ___________________________

Title/Escrow

Name: ___________________________

Company: _______________________

Address: _________________________

City/State/Zip: ______________________

Phone: ____________________________

Fax: ________________________________

Email: ____________________________

Contact

Name: ____________________________

Company: __________________________

Address: ___________________________

City/State/Zip: ______________________

Phone: ____________________________

Fax: ________________________________

Email: ____________________________

Contact

Name: ____________________________

Company: __________________________

Address: ___________________________

City/State/Zip: ______________________

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Fax: ________________________________

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Contact

Name: ______________________________

Company: ___________________________

Address: ____________________________

City/State/Zip: _______________________

Phone: ______________________________

Fax: ________________________________

Email: ______________________________

The Title Insurance “Value Proposition”: 9 Reasons

Why Title Insurance is Important and Worth the Money

A Value Proposition is the unique value a product or service provides to a customer. It describes the benefits the product delivers.

It answers the question: Why is this worth the money?

1. Title insurance protects the interests of property owners and lenders against legitimate of false title claims by owners or lien holders. It insures the title to the investment, unlocking its potential; as a financial asset for the owner.
2. Title companies access, analyze, and distribute title information, in addition to handling escrow and closing.
3. Title problems are discovered in more than one-third of residential real estate transactions. These “defects” must be resolved prior to closing. The most common problems are existing liens, unpaid mortgages, and recording errors of names, addresses or legal descriptions.
4. A Homeowner’s title insurance policy protects the owner for as long as he or she has an interest in the property; and the premium is paid only once, at closing.
5. Title insurance is different from other forms of insurance because it insures against events that occurred before the policy is issued, as opposed to insuring against events in the future, as auto, health, property or life insurance do. Title insurance is loss prevention insurance.
6. Title Companies preform a thorough search of existing records to identify all possible defects in order to resolve them prior to issuing a policy. They preform intensive and extensive work up-front to minimize claims. The better a Title Company does this, the lower their rate of claims and the more secure your level of protection.
7. Researching titles is extremely labor-intensive since only a small percentage of public records are computerized. The industry

invests a substantial amount of time and expense to collect and evaluate title records. As a result, the industry's claims experience is low compared to other lines of insurance.

8. It is important to have unquestionable security and peace of mind knowing that your policy is backed by a title insurance company.
9. Dollar for dollar, title insurance is the best investment you can make to protect your interest in one of the most valuable assets you own: your home.

What Is Title? FAQ

*What is Title Insurance?

The purchase of a home is often the single largest investment people will make in a lifetime; therefore, the importance of fully protecting such an investment cannot be over stressed. Title insurance is protection which assures that the rights and interests to the property are as expected, that the transfer of ownership is smoothly completed and that the new owner receives protection from future claims against the property. It is the most effective, most accepted and least expensive was to protect property ownership rights.

Because land endures over generations, many people may develop rights and claims to a particular property. The current owner's rights- which often involve family and heirs- may be obscure. There may be other parties (such as government agencies, public, utilities, lenders or private contractors) who also have "rights" to the property. These interests limit the "title" of any buyer.

*Why Do You Need a Title Insurance Policy?

If title insurance companies work to eliminate risks and prevent losses caused by defects in the title insurance before closing, why do you need a title insurance policy? The title to the property could be seriously threatened or lost completely by hazards which are considered hidden risks-- “Those matters, rights or claims that are not shown by the public records and, therefore, are not discoverable by a search and examination of those private records.” Matters such as forgery, incompetency or incapacity of the parties, fraudulent impersonation, and unknown errors in the records are examples of “hidden risks” which could provide a basis for a claim after the property has been purchased.

Title insurance isn’t just for a homeowner. Subdividers need it when planning a new tract of homes or a commercial strip center. Attorneys use it for clients who are investing in shopping centers hotels office buildings and countless other projects. Builders need it in order to obtain construction loans from their lender. Everyone wants to have peace of mind when investing their hard-earned money. The title insurance company will help protect these important investments, no matter how large or small, with its own reputation and financial strength.

*Why Does the Lender Need a Policy on My Property?

For the lender, a title policy is a gurantee that has a valid and enforceable lien (loan or deed of trust) secured by the property, tha no one else other than those listed policy has a prior claim (or loan, etc) and that the party to whom they are making the loan does own the property being used such as security for the loan. This protection remains in effect as long as the loan remains unpaid.

The existence of a lender’s title policy encourages lenders such as banks, savings and loan associations, commercial banks, life insurance companies, etc., to loan money. Because they are lending other people’s money (savings or policy holder’s funds), they must be concerned with safety should the borrower not make their payments. The Title Company insures that the title to the property is marketable in the event of a foreclosure and the guarantee is backed by the integrity and solvency of the title company. Of course, this benefits everyone- from the single-family homeowner to the owner of a high-rise building.

*What Is a Title Search?

Before issuing a policy of title insurance, the title company must review the numerous public records concerning the property being sold or financed. The purpose of this title search is to identify and clear all problems before the new owner takes title or the lender loans money.

Research helps to determine if there are any rights or claims that may have an impact upon the title such as unpaid taxes, unsatisfied mortgages, judgements, tax liens against the current or past owners, easements, restrictions and court actions. These recorded defects, liens and encumbrances are recorded in a “preliminary report” to applicable parties. Once reported, these matters can be accepted, resolved or extinguished prior to the closing of the transaction. In addition, you are protected agains any recorded defects, liens, or encumbrances upon the title that are unreported to you and which are within the coverage of the particular policy issued in the transaction.

*What types of policies are there?

Protection against flaws and other claims is provided by the title insurance policy which is issued after your transaction is complete. Two types of policies are routinely issued at this time: An “Owner’s Policy” which covers the home buyer for the full amount paid for the property: and a “lender’s policy” which covers the lending institution over the life of a loan. When purchased at the same time, a substantial discount is given in the combined cost of the two policies, Unlike other forms of insurance, the title insurance policy requires only one moderate premium for a policy to protect you or your heirs for as long as you own the property. There are no renewal premiums or expiration dates.

*How is Title Insurance Different Than Other Types of Insurance?

With other types of casualty insurance such as auto, home, health and life, a person thinks of insurance in terms of future loss die to the occurrence of some future event. For instance, a party obtains automobile insurance to pay for future loss occasioned by a future “fender bender” or theft of the car. Title insurance is a unique form of insurance which provides coverage for future claims or losses due to title defects which are created by some past event (i.e. Events prior to the acquisition of the property). Another difference is that most other types of insurance charge ongoing fees (premiums) for continued coverage. With Title Insurance, the original premium is the only cost as long as the owners or heirs own the property. There are no annual payments to keep the owners Title Insurance Policy in force. While some people balk at another “closing fee” title insurance is pretty reasonable considering the policy could last a lifetime.

*How Does Title Insurance Protect Against Claims?

If a claim is made against the owner or lender, the title insurance company protects the insurer by:

1. Defending the title, in court if necessary, at no cost to owner/lender.
2. Bearing the cost of the settling case, if it proves valid, in order to protect your title and maintain possession of the property.

Each policy is a contract of “indemnity.” It agrees to assume the responsibility for legal defense of title for any defect covered under the policy’s terms and to reimburse for actual financial losses up to the policy limits.

Why You Need Title Insurance – 21 Reasons

We hope you never have a title claim – with home ownership comes the need to protect the property against the past, as well as the future. Each successive owner brings the possibility of title challenges to the property. Title insurance protects a policy-holder against challenges to rightful ownership of real property, challenges that arise from circumstances of past ownerships.

*Here are 21 reasons why you need Title Insurance:

1. A fire destroys the house and improvements. The ground is left. A defective title may take away not only the house, but also the land on which it stands. Title insurance protects you (as specified in the policy) against such loss.
2. A deed or mortgage in the Chain of Title could be a forgery.
3. A deed or mortgage may have been signed by a person under age.
4. A deed or mortgage may have been made by an incapacitated person or one otherwise incompetent.
5. A deed or mortgage may have been made by a power of attorney after its termination and would, therefore, be void.
6. A deed or mortgage may have been made by a person other than the owner, but with the same name as the owner.
7. A testator of will may have had a child born after the execution of the will, a fact that would entitle the child to claim his or her share of the property.
8. A deed or mortgage may have been procured by fraud or duress.
9. Title transferred by an heir may be subject to a federal estate tax lien.

10. An heir or other person presumed dead may appear and recover the property or an interest therein.

11. A judgment or levy upon which the title is dependent may be void or voidable on account of some defect in the proceeding.

12. Title insurance covers attorney fees and court costs.

13. Title insurance helps speed negotiations when you're ready to sell or obtain a loan.

14. A deed or mortgage may be voidable because it was signed while the grantor was in bankruptcy.

15. There may be a defect in the recording of a document upon which your title is dependent.

16. Claims constantly arise due to marital status and validity of divorces. Only title insurance protects against claims made by non-existent or divorced "wives" or "husbands."

17. Many lawyers, in giving an opinion on a title, protect their clients as well as themselves, by procuring title insurance.

18. By insuring the title, you can eliminate delays and technicalities when passing your title on to someone else.

19. Title insurance reimburses you for the amount of your covered losses.

20. Each title insurance policy written is paid up, in full, by the first premium for as long as you or your heirs own the property.

21. Over the past 25 years, claims have risen dramatically.

Life Of a Title Search

1. Customer Service verifies legal and vesting if needed and opens order.
2. Title officer orders search from title plant.
3. Searching Department
    a. Pulls property chain & general index
    b. Prepares Plat Maps
    c. Prints required documents
    d. Reviews all chains and recorded documents

4. Examining Department preliminary report/title commitment .
5. Deliver prelim to escrow and lenders.
6. New documents/demands & statement of information submitted to Title Company.
7. Title officer reviews preliminary report/title commitment.
8. Escrow authorizes recording.
9. Documents record & encumbrances of record are paid off.
10. Recording department writes title policy.
11. Policy department prepares final title policy.
12. Title policy is released to client.

What is an Escrow?

Buyers and Sellers of a piece of property establish terms and conditions for the transfer of ownership of the property. These terms and conditions are given to a third party known as the escrow holder. In turn, the escrow holder has the responsibility of seeing that terms of the escrow are carried out. The escrow is an independent neutral account and the vehicle by which the mutual instructions of all parties to the transaction are complied with.

Why is Escrow Needed?

Whether you are the buyer or the seller, you want assurance that no funds or property will change hands until all instructions have been followed. With the increasing complexity of business, law and tax structures, it takes a trained professional to supervise the transaction.

How long is Escrow

The length of an escrow is determined by the terms of the purchase agreement/joint escrow in instructions and can range from a few days to several months.

Who Chooses the Escrow?

The selection of the escrow holder is normally done by agreement between the principals. If a real estate agent is involved, they may recommend an escrow holder.

How Does the Escrow Process Work?

The escrow is a depository for all monies, instructions and documents necessary for the purchase of your home, including your funds for down payment and your lender's funds and documents for the new loan. Generally, the buyer deposits a down payment with the escrow holder and the seller deposits the deed and any other necessary documents with the escrow holder. Prior to the close of escrow the buyer deposits the balance of the funds required and agreed upon by the parties with the escrow holder. The buyer instructs the escrow holder to deliver the monies to the seller when:

- The subject property is free and clear of all title defects
- The deed conveying title of property to buyer has been sent to the county for court recording

The escrow holder thus acts for both parties and protects the interests of each within the authority of the escrow instructions. Escrow cannot be completed until the terms and conditions of the instructions have been satisfied and all parties have signed escrow documents. The escrow holder takes instructions based on the terms of the purchase agreement and the lender's requirements.

Escrow Duties Typically Include the Following:

1. Receive signed Purchase Agreement; prepare Escrow Instructions
2. Receive and deposit buyer's earnest money into escrow account
3. Serve as the neutral agent and liaison/communication link to all parties to the transaction
4. Order Title Commitment to determine status of title to property

5. Request beneficiary’s statement or pay-off demand related to existing financing.
6. Comply with lender’s requirements as specified in the lender’s closing instructions
7. Secure releases of all escrow contingencies or other conditions required
8. Prorate taxes, interest, insurance and rents
9. Prepare or secure transfer deed or other documents necessary to consummate the transaction

10. Arrange appointments for buyer/seller to sign documents

11. Request and receive purchase funds from the buyer and loan funds from new lender

12. Close escrow pursuant to instructions provided by seller, buyer and lender.

13. Arrange for recording of deeds or any other documents as instructed

14. Request assistance of the title insurance policies

15. Disburse funds as authorized, including charges for title insurance, recording fees, commissions and loan payoffs

16. Disposition of all funds held in escrow account

17. Prepare final accounting statements for the parties

The Escrow Officer

- Receives an order for escrow and title services.
- Orders the title commitment and examination on the subject property.
- Acts as the imperial “stakeholder” or depository, in a fiduciary capacity, for all documents and monies required to complete the transaction per written instructions of principals.
- Prepares the escrow instructions and required documents in accordance with terms of the sale.

- With authorization from the real estate agent or principal. Orders demands on existing deeds of trust and liens or judgements, if any. For assumption or subject to loan, orders the beneficiary's statement or formal assumption package.
- Reviews documents received in the escrow: title commitment, payoff or assumption statements, new loan package and other related instruments. Reviews the conditions in the lender's instructions including the hazard and title insurance requirements.
- Presents the documents, statements, loan package(s), estimated closing statement and other related documents to the principals for approval and signatures and requests the balance of the buyer's funds.
- Reviews the signed instructions and documents, returns the loan package and requests the lenders funds.
- Receives the proceeds of the loan(s) from the Lender(s)
- Determines when the transaction will be in the position to close and advises the parties.
- Assisted by the Title personnel, records the deed, deed of trust and other documents required to complete the transaction with the County Recorder and orders the title insurance policies.
- Closes the escrow by preparing the final settlement statements, disbursing the proceeds to the Seller, paying off the existing encumbrances and other obligations.
- Delivers the appropriate statements, funds and remaining document to the principals, agents and/or lenders.

The Buyer:

- Tenders a written offer to purchase (or accepts Seller's counter-offer) accompanied by a good faith deposit amount.
- Applies for a new loan, completing all required forms and often prepaying certain fees such as credit report and appraisal costs.
- Approves and signs the escrow instructions and other related instruments required to complete the transaction.

- Approves the title commitment and any property disclosure or inspection report called for by the purchase and sale agreement.
- Approves and signs new loan documents and fulfills any remaining condition contained in the contract, lender's instructions and/or the escrow instructions.
- Deposits funds necessary to close the escrow. Approves any changes by signing amendments in the escrow instructions.

The Lender (when applicable)

- Accepts the new loan application and other related documents from the Buyer(s) and begins with the qualification process.
- Orders and reviews the property appraisal, credit report, verification of employment, verification of deposit(s), title commitment and other related information.
- Submits the entire package to the loan committee and/or underwriters for approval. When approved, loan conditions and title insurance requirements are established.
- Provide a Loan Estimate/Closing Disclosure Form describing terms of loan and applicable closing costs.
- Deposits the new loan documents and instructions with the escrow holder for buyer's approval and signature.
- Reviews and approves the executed loan package and coordinates the loan funding with the escrow officer.

Red Flags In the Escrow Process

Below are some of the items that may cause delays or other problems within a transaction and must be addressed well before the closing.

- Bankruptcies
- Business trusts
- Clearing liens and judgements, including child or spousal support liens
- Encroachment or off record easements
- Establishing fact of death-joint tenancy Family trusts

- Foreclosures
- Physical inspection results-Encroachment, off-record easements
- Probates
- Power of Attorney-Use of, proper execution
- Proper execution of documents
- Proper jurats, notary seals
- Recent construction
- Transfers or loans involving corporations or partnerships
- Last minute change in buyers
- Last minute change in type of title insurance coverage

Taxes: These are usually standard, showing the status of the current tax year.

Red Flag: Postponed property taxes is a program put on by the state for senior citizens. It allows the owner to postpone the taxes until the property is sold or refinanced. The owner applies to the state, and the state provides "checks" that the owner uses to pay the taxes. The reason this is a red flag is because a demand will need to be ordered from the state by escrow in order to pay off the postponed taxes. It may take up to two weeks to get a demand.

CC&R's: Contracts, Conditions and Restrictions (CC&R's) are standard. The CC&R's should be provided to the buyer within the title report. The buyer should read these thoroughly, especially if improvements to the property are contemplated.

Red Flag: Some CC&R's prohibit certain types of improvements.

Easements: These are also standard. Most easements in newer sub divisions (20 years or less) are contained in the street. Some subdivisions have nonexclusive easements over portions of the property for such things as maintenance of side yards, access to common areas (like golf courses), etc.

Red Flag: If improvements are contemplated (such as construction of a pool or spa for example), then the buyer should determine that there will not be any interference to contemplated improvements. However, you should be aware that easements are very difficult to get removed, and the buyer may be better off with another property if an easement interferes with future plans for the property.

Agreements: These commonly take the form of road maintenance agreements, mutual easement agreements (like a shared driveway) or improvement agreements and will bind the owner to certain actions. A copy of the agreement should be requested from title and provided to the buyer. It is the buyer's responsibility to contact their own counsel if they do not understand how the agreement would affect them.

Trust Deeds: These are common. Escrow will order a demand from the lender(s) which will allow the title company to pay off the existing loan(s) using proceeds from the buyer's new loan (or proceeds if all cash).

Red Flag: Watch out for old trust deeds from a previous owner (or sometimes the current owner if he/she has refinanced). If you find a trust deed listed that has already been paid, or that looks like it was taken out by a previous owner, call your title officer immediately. The Title Officer will research the trust deed, and take the necessary steps to remove it from the private record or by acquiring an "indemnity" from the title company who paid off the old loan. Old trust deeds with private party beneficiaries (an individual acting as a lender, such as an old seller carry-back) are difficult to get removed, especially if several years have gone by since the loan was paid off. A bond will sometimes be necessary in order to clear title of an old trust deed. These bonds must be covering twice the face value of the deed of trust, and will cost upwards from 1% of the bond amount (usually around 2 or 3 percent, more for higher risk bonds), depending on how much supporting documentation is provided to the bonding company. Note: if a buyer is getting financing from a seller, or any individual, it is advised to contact their realtor or title officer when the loan is being paid off. The release documents are much easier to get now, rather than in a few years when the lender may no longer be around.

Encroachments: Sometimes a structure (commonly a fence or driveway) encroaches upon a property. This usually means that the client will have to take the property subject to the encroachment. Contact your title officer if you see encroachment language in your preliminary report.

Red Flag: The lender till usually not want to lend on a property where encroachments exist. In some circumstances, an endorsement to the lender's policy (usually with an extra charge) can allow a lender to close. These are determined on a case-by-case basis. Again, contact your title officer.

Notice of Violation: These will sometimes be recorded by the fire department, the health department of the local zoning enforcement division in situations where the property violates a local statute.

Red Flag: These are always a red flag. The lender will not accept these conditions. The violation will have to be eliminated and the local enforcement agency will have to issue a release before closing. Escrow (or the seller/seller's representative) will usually have to deal directly with the appropriate agency to resolve these types of issues.

Court Orders/Judgements: These are not a standard item. The most common type to show on a title commitment is support judgements. These are issued by the courts when child/spousal support is owed by the party named.

Red Flag: Any Order/Judgement is a red flag. Support Judgements can take up to six weeks to get a demand and release from the creditor (usually the district attorney's office). If you see any judgement, contact escrow immediately to verify that the demand has been ordered.

Bankruptcy: While not unusual, bankruptcies are not standard.

Red Flag: All open bankruptcies require the debtor to get permission from the court to sell or encumber an asset (the home) or to take on new debt. Chapter 7 and 13 bankruptcies against the seller are the most common found in a sale situation. A letter from the bankruptcy trustee will be required to close escrow. The trustee will sometimes require that a payment be made to the court at close. We sometimes find a Chapter 13 against a buyer, which will also require a letter from a trustee allowing the debtor to take on more debt. An open Chapter 7 against the buyer is rare, and will probably not get a loan as long as their in Chapter 7. Note: Chapter 7 is a complete washout of dischargeable debt, Chapter 13 is a reorganization of debt and Chapter 11 is a reorganization of debt for a company or corporation.

Notice of Pending Action: This is also known as "lis pendens."

Red Flag: This is a big red flag. This means someone has a lawsuit that may affect the title to the property. These are often found in acrimonious divorce situations. A demand (the aggressing arty usually wants money before releasing) and withdrawal (a "withdrawal of lis pendens" is a legal document that must be recorded to release the lis pendens) will be required before closing.

ID Affidavit: Also known as a statement of facts, statement of identity, or an SI. This required document will be provided to the parties by escrow. It asks for information about the parties such as social security number, residence history, marital history, job history, aliases, etc. Please fill this out as completely as possible. The SI allows the company to eliminate things recorded in the GI (General Index) against the name (as opposed t the property) such as tax liens, judgements, welfare liens, support liens and lawsuits owned by the debtor, and therefore make the property liable for any payment due under the lien.

Red Flag: If you have a common name (for example Smith, Johnson, Lee, Garcia, etc.) it is important that the company receive the completed SI promptly in order to "clear" these items. Sometimes you may be unaware that a tax lien exists. More often, you may have resolved the situation but had never gotten the proper release documents recorded in order to remove it from the public record. We cannot close a file with unresolved liens against a seller. (There are some circumstances when a deal can still be closed when there is an unresolved lien against a buyer.) Contact your title or escrow officer if you find that this situation exists.

Other Parties to an Escrow Transaction

Appraisal

If the buyer is securing a new loan for the purchase, an appraisal will be required by the lender. An appraiser will:

- Research the subject property as to year built bedrooms, baths, lot size and square footage.
- Compare data of recent sales in the subject's neighborhood, typically within a one mile radius. The appraiser usually locates at least three (preferably more) similar homes that have sold within the past six months. These homes are considered the Comparable Properties or "Comps" for short.
- Field inspection is conducted in two parts: The inspection of the subject property; and the exterior inspection of the comparable properties.

The subject property inspection includes taking photos of the front and rear of the home (that may include portions of the yard) and photos of the street scene. The appraiser also makes an interior inspection for features and conditions which may detract from or add to the value of the home. A floor plan of the home is drawn and included while doing the inspection.

Home Warranty

Home Warranties offer advantages to both the buyer and seller. This policy protects the buyer by paying for certain repairs and costs of major mechanical systems and major appliances in the home such as heating and air conditioning. There are a variety of plans available.

Benefits of home Warranty Coverage to the Seller

- Home may sell faster and at a higher price
- Optional coverage during the listing period

- Protection from legal disputes that occur after the sale increases the marketability of a home

Benefits of Home Warranty Coverage to the Buyer

- Warranty coverage for major systems and built-in appliances
- Protects cash flow
- Puts a complete network of qualified service technicians at the Buyer's service
- Low deductible

Most home warranty plans can be paid for at the close of escrow. A copy of the invoice is presented to the escrow company and it becomes part of the seller's closing costs.

Home Inspections

A home inspection is another component of the escrow process. It is a physical examination to identify material defects in the systems, structure and components of a building, such as foundations, basements and under-floor areas, exteriors, roof coverings, attic areas and roof framing, plumbing, electrical systems, heating and cooling systems, fireplaces, chimney's and building exteriors.

Is Your Home Inspector Insured?

The should have: Professional Liability Insurance Coverage, General Liability Insurance Coverage, and Worker's Compensation.

How the Seller Should Prepare For a Home Inspection

The seller should have the property fully accessible, including elimination of stored objects that may prevent the inspector from accessing key components of the home. Areas of special concern are attics, crawlspaces, electric panels, closets, garages, gates/yards, furnaces and water heaters. All utilities should be on with functioning pilots lit.

Inspector's Responsibility to the Homeowner

Respect the property. Leave the property as they found it. Answer questions about the report after the inspection is completed. Provide a copy of the report on site.

The Loan Process

Step 1: Application

An application is considered received when the consumer provides the following information to the Creditor:

- Consumer Information
- Name
- Income
- Social Security number to obtain a credit report
- Address of the subject report
- Estimate of the value of the property
- Mortgage loan amount sought

Step 2: Ordering Documentation

Your loan consultant will order the necessary documentation for the loan as soon as it is received. Any verifications will be mailed, and the credit report and appraisal will be ordered. You will also receive a Loan Estimate of your costs and details of your loan.

Step 3: Awaiting Documentation

Within approximately two weeks, all necessary documents should be received from your loan consultant. Each item is reviewed carefully in case additional items may be needed from you to resolve any questions or problems.

Step 4: Loan Submission

Submitting your loan is a critical part of the process. All of the necessary documentation will be sent to the lender, along with your credit report appraisal.

Step 5: Loan Submission

Loan approval may be obtained in stages. Usually within one to three days, your loan consultant should have pre-approval from the lender. If the loan requires mortgage insurance, or if an investor needs to review the file, final approval could take additional time. You do not have final loan approval until ALL the necessary parties have underwritten the loan.

Step 6: Closing Disclosure

A Lender will provide you with a Closing Disclosure to review prior to the release of loan documents.

Step 7: Lender Preparation of Documents

As soon as the loan is approved and all requirements of the lender have been met, the loan documents will be prepared. These documents will be sent to the escrow officer, and you will be asked to sign the documents. Your lender may require an impound account for tax installment payments, depending on the type of loan.

Step 8: Funding

Once you have signed the documents and they have been returned to the lender, the lender will review them and make sure that all conditions have been met and all the documents have been signed correctly. When this is competed, they will “fund” your loan. “Fund” means that the lender will give the title company the money by check or wire.

Step 9: Recordation

When the loan has been funded, the title company will record the Deed of Trust with the county in which the property is located (usually by the next day). Upon receipt of confirmation of the deed being recorded, title or escrow will then disburse monies to the appropriate parties at this time, in most cases, your loan is considered complete.

Private Mortgage Insurance (PMI) - FAQ’s

Buying a home is easier than ever, thanks to the availability of Private Mortgage Insurance, or PMI. PMI has made it possible for qualifying buyers to obtain mortgages with a down payment as low as 3%. Such mortgages are increasingly in demand in today's home market because potential homeowners, especially first time home buyers, are unable to accumulate the 20 or 30 percent down payment that would be required without PMI.

Definition of PMI

PMI is a type of insurance required by the lender that helps protect lenders against losses due to foreclosure. This protection is provided by private mortgage insurance companies and enables lenders to accept lower down payments than would normally be allowed.

*When Do I Need to Carry PMI?

If you make a down payment of less than 20% of the home sales price, your lender will require you to carry PMI. This will protect the lender from a small potential loss if you default on your low down payment loan.

*How Long Am I Required to Carry PMI?

PMI can usually be canceled by the home buyer when they have at least 20% equity in the home, either due to payment of the principal or the appreciation of the property. When you believe your home has achieved 20% equity, you can contact your loan server for guidelines. Usually lenders will require an appraisal on the property to verify the equity.

*How Much Is PMI Going to Cost Me?

The House Banking Committee has estimated that the average cost of mortgage insurance is between $300 and $900 a year. Premiums are based on the amount and terms of the mortgage and will vary according to loan to value ratio, type of loan and the amount of coverage required by the lender.

*What Are the Payment Options for PMI?

PMI can be paid on either an annual, monthly or single premium plan.

Taxes

There are so many types of tax issues which should be considered during a real estate transaction. The following information is provided as a recourse only and it is advised that that a seller and buyer consult with their legal and tax professionals for advice.

Topics which may be a part of, or a result of, your escrow include:

- Capital Gains Tax
- Change of Ownership Filing
- Transfer Tax
- Foreign Investment in Real Property Tax Act (FIRPTA)
- Property Taxes
- Supplemental Taxes

The IRS provides free publications that explain the tax aspects of real estate transaction. A few of these include:

- Publication #523: Selling Your Home
- Publication #530: Tax Information for First Time Homeowners
- Publication #544: Sales and Other Dispositions of Assets
- Publication #551: Basis of Assets

Federal Requirements

The internal Revenue Service (IRS) requires that sellers report certain information pertaining to sales of real property. Under The Tax Reform Act or 1986, reportable transactions include sales and exchanges of properties including, but not limited to, houses, townhouses, and condominiums. Also reportable is stock in cooperative housing corporations and mobile homes without wheels. Specifically excluded from reporting are foreclosures and abandonment of real property, as well as financing or refinancing or properties.

The Escrow Officer, as the settlement agent, will ask the seller to complete a Certificate for Information Reporting for the 1099 S form which may be required by the IRS. The seller is required to provide their correct taxpayer identification number (social security number), as well as the closing date of the transaction and gross proceeds of the transaction. Most settlement agents now transmit the reportable information electronically to the IRS at the end of the year, although a “hard copy” of the form is included in the seller’s closing documents.

Excise Taxes

Excise Tax is a tax on the sale of real estate. The real estate tax typically paid by the seller of the property, although the buyer is liable for the tax if it's not paid. The tax applies to the seller. The tax also applies to transfers of controlling interests (50% or more) in entities that own property in the state.

County treasurers collect the state and local taxes, except for the tax that applies to acquisition of controlling interests which is reported directly to the Department of Revenue.

The state tax rate is .0128 - City and County rates vary depending on the area.

Property Taxes

Homeowners pay property taxes to their appropriate assessment, collection or franchise tax department in each county. A change in ownership or the completion of new construction could result in a change in the assessed value of the property and may result in the issuance of a supplemental property tax bill. Taxes are due on predesignated dates and become delinquent when not paid. Penalties are assessed for delinquent taxes. The yearly “tax calendar” varies by state.

In addition to standard property taxes, many jurisdictions also contain special assessment districts, which may have been formed as a means of financing infrastructure. Bonds may have been sold to finance the infrastructure and the ultimate property owner continues to make payments on the principal and interests of the bond. The bond issues vary in size and term. Other special city and county districts may be assessed for a variety of purposes, including street lights and traffic signals, street maintenance, certain educational purposes, etc.

Change of Ownership Filings

When property changes hands, local government agencies require a notice of change of ownership. At the local level, this would be any county office that assesses or collects taxes. Reporting a change in the ownership of the property allows the local jurisdiction to assess the tax liability for each property as the title is transferred from seller to buyer.

The reporting documents vary from state to state but all states require, at minimum, the names of the seller and buyer, assessor’s parcel number or the other property identifying number, the property location and tax address.

The escrow officer will generally assist the client in completing the document and ensuring that it reaches the recorder’s office along with the other documents pertinent to the change of ownership.

Some situations which appear to be a change of ownership are exempt from the filing of this type of document, including corrections to the record and status changes such as a change in vesting.

Loan FAQ

*When Do I Sign Loan Documents?

Generally, your escrow instructions will be mailed to you for your completion and signature. Your escrow officer or real estate agent will contact you to make an appointment for you to sign your final loan papers. At this time, the escrow holder will also tell you the amount of money you will need (in addition to your loan funds) to purchase your new home. The lender will send your loan funds directly to the title company.

*What Do I Bring to My Loan Document Signing Appointment?

If you are required to bring money to closing, remember that it must be in the form of a Washington State Bank Cashiers Check or Wire Transfer. These funds need to be received by the escrow office 24 hours in advance of the recording/closing date indicated on your Purchase and Sale Agreement.

A valid picture ID, such as your driver's license or state ID card is required at signing for all persons who will be signing documents. These items are needed by a Notary Public to verify your identity. It is a routine but necessary step for your protection.

Make sure you are aware of your lender's requirements and that you have satisfied those requirements before you come to the escrow company to sign your papers. Your loan officer or real estate agent can assist you.

*What's the Next Step After I've Signed the Loan Document?

After you have signed all the necessary instructions and documents, the escrow holder will return them to the lender for final review. This review usually occurs within a few days. After the review is completed, the lender is ready to fund your loan and informs the escrow holder.

*When Will I Receive the Deed?

The original deed to your home will be mailed directly to you at your new home by the County Recorder's office. This service takes several weeks (sometimes longer, depending on the County Recorder's work volume).

What Is Payoff?

A loan payoff is an extremely important service provided by title companies to facilitate the handling of money in the closing of real estate transaction. It is the receipt of funds from the buyer and the payment of the obligations of the seller (if any) in conjunction with a real estate transaction. The payoff function is performed as part of the escrow process.

Commonly Used Payoff Terms:

Prefigures: Estimated payoff figures calculated and given prior to closing upon request. These figures are only valid through the date given and are based on the information provided at the time.

Good Funds: The Title Company must be in receipt of "good funds" prior to disbursing on a payoff. Types of good funds include:

1. Funds wired into trust account
2. A cashier's, teller's, or certified check
3. Other local checks (provide availability of funds five days after deposit)
4. Out of area checks (provide availability of funds ten days after deposit)

Demands: Demands must include specific payoff information concerning the particular property and must be signed. It is the responsibility of the Escrow Officer to order and provide all necessary demands, including any updates or changes on a timely basis.

Taxes: Outstanding property taxes can be paid out of the payoff proceeds.

Refunds: Any overpayment of demands will be refunded to the escrow upon receipt from the lender. Refunds typically take two to six weeks to process.

Shortages: Your Escrow Officer will contact you if there is a shortage of the necessary funds to cover the outstanding obligations. The shortages must be received prior to payoff.

Disbursement Checks: Checks are delivered locally to lending institutions by a contracted messenger service. Checks to individuals and to out of area lenders are typically sent via an overnight delivery company.

Wire Transfers: Funds can be wired into and out of Title offices through the bank.

Closing Costs: What Buyers and Sellers Typically Pay For

Closing costs are fees and expenses, over and above the price of the property, incurred by the buyer and/or the seller in the property, incurred by the buyer and/or the seller in the property ownership transfer. Examples are title searches, closing services, loan fees, and deed filing fees. Also called settlement costs. There are two sides (buyer and seller) to the equation when determining closing costs. Below is a simple customary closing cost list. Keep in mind these are typical, but should not be considered hard fast rules, feel free to consult your real estate agent for more detail.

Seller Normally Pays for:

- One-half of the escrow fee (according to contract)
- Work orders (according to contract)
- Owner's title insurance premiums
- Real estate commission
- Any judgements, tax liens, etc. against the seller
- Any unpaid Homeowner Association dues
- Home Warranty (according to contract)
- Any bonds or assessments (according to contract)
- Recording charges to clear all documents of record against seller
- Payoff of all loans in seller's name (or existing loan balance being assumed by buyer)
- Interest accrued to lender being paid off, reconveyance fees and any prepayment penalties
- Excise Tax (percentage based on county and sale price)

Buyer Normally Pays for:

- One-half of the escrow fee (according to contract)
- Lender's title policy premiums (ALTA)
- Document preparation (if applicable)
- Tax pro-ration (from date of acquisition)
- Recording changes for all documents in buyer's names
- Home Owner's insurance premium for first year
- Home Warranty (according to contract)

- Inspection fees (according to contract): roofing, property, geological, pest, etc.
- All new loan charges (except those required by lender for seller to pay)
- Interim interest on new loan from date funding to first payment date

Know Before You Close

Simple answers about the CFPB and how the new rules will change real estate transactions.

What is CFPB?

After the 2008 financial meltdown, Congress established the consumer Financial Protection Bureau (CFPB). It was created in 2011 after the Dodd-Frank Act was placed into effect. The Consumer Financial Protection Bureau provides information to consumers to understand financial agreements in which they enter. The CFPB strives to educate the purchaser on fair practices, enforce consumer laws, and analyze financial markets.

CFPB Primary Goals:

- Easier-to-use disclosure forms
- Improved consumer understanding
- Better comparison shopping
- Avoid costly surprises at the closing table

More Information:

For more than 30 years, federal law has required all lenders to provide two disclosure forms to consumers when they apply for a mortgage and two additional short forms were developed by different federal agencies under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA).

To help simplify matters and avoid the confusing situations consumers have often faced when purchasing or refinancing a home in the past, the Dodd-Frank Act provided for the creation of the Consumer Financial Protection

Bureau (CFPB) and charged the bureau with integrating the mortgage loan disclosures under the TILA and RESPA.

On November 20, 2013 the CFPB announced the completion of their new integrated mortgage disclosure forms along with their regulations (RESPA Regulation X and TILA Regulation Z) for the proper completion and timely delivery to the consumer. These regulations are known as “The Rule”.

Any residential loan originated after October 3, 2015 will be subject to the new rules and forms set forth by the CFPB. The Rule replaces the Good Faith Estimate (GFE) and early TILA form with the new Loan Estimate. It also replaces the HUD-I Settlement Statement and final TILA form with the new Closing Disclosure. The introduction of the new disclosure forms require changes to the systems that produce the closing forms.

Glossary of Terms

Adjustable Rate Mortgage (ARM): A Mortgage in which the interest rate is adjusted periodically in accordance with a market indicator, to more closely coincide with the current rates. Also sometimes known as renegotiable rate mortgage, the variable rate mortgage, or the graduated rate mortgage.

Amortization: Reduction of the principal of a debt in regular, periodic installments.

Annual Percentage Rate (APR): An interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note or advertised rate on the mortgage. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan.

Assumption of Mortgage: An obligation undertaken by a new purchaser of land to be liable for payment of an existing note secured by a mortgage.

Caps: Consumer safeguards that limit the amount the interest rate on an adjustable rate mortgage can change at each adjustment or over the life of the loan.

Conditions, Covenants & Restrictions (CC&R's): A document that controls the use, requirements and restrictions of a property.

Certificate of Reasonable Value (CRV): An appraisal issued by the Veterans Administration showing the property's current market value.

Closing (also called "settlement"): The completion of a real estate transfer, where the title passes from seller to buyer, or a mortgage lien is given to secure debt.

Condominium: A statutory from of real estate development of separately-owned units and jointly-owned common elements in a multi-unit project.

Conventional Mortgage: A mortgage securing loan made by investors without governmental underwriting, i.e. a loan which is not FHA insured or VA guaranteed.

Deed: Written instrument which, when properly executed and delivered, conveys title.

Discount Point: An additional charge made by a lender at the time a loan is made. Points are measured as a percent of the loan, with each point equal to one percent, e.g. two points on a $100,000 mortgage would cost $2,000

Earnest Money: A deposit of funds made by a buyer of real estate as evidence of good faith.

Easement: A non-possessory right to use all or part of the land owned by another for a specific purpose.

Equity: The difference between the fair market value and current indebtedness, also referred to as the owner's interest. The value an owner has in real estate over and above the obligation against the property.

Federal Housing Administration Loan (FHA Loan): A loan insured by the Federal housing Administration, open to all qualified home purchasers.

Farmers Home Administration Loan (FMHA Loan): A loan insured by the federal government similar to FHA loan, but usually used for residential properties in rural areas.

Federal National Mortgage Association (FNMA): Also known as “Fannie Mae” A U.S. government sponsored corporation dealing in the purchase of the first mortgages for the secondary market.

Fee Simple Deed: The absolute ownership of a parcel of land. The highest degree of ownership that a person can have in real estate, which gives the owner unqualified ownership and full power disposition.

Joint Tenancy: An equal undivided ownership of property by two or more persons. Upon death of any owner, the survivors take the decedent's interest in the property.

Lien: A claim upon a piece of property for the payment or satisfaction of a debt or obligation.

Loan-to-Value Ratio: The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

Mortgage: A conditioned pledge of property to a creditor as security for the payment of a debt.

Negative Amortization: Occurs when your monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan. The danger of negative amortization is that the home buyer ends up owing more than the original amount of the loan.

Personal Property: Any property which is not real property, e.g. money, savings accounts, appliances, cars, boats, etc.

Principal, Interest, Taxes and Insurance (PITI): Also called monthly housing expense.

Private Mortgage Insurance (PMI): In the event that a buyer does not have a 20% down payment, lenders will allow a smaller down payment—as low as 3% in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will usually require an initial premium payment and may require an additional monthly fee, depending on the loan’s structure.

Realtor: A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.

Subdivision: A tract of land surveyed and divided into lots for purposes of sale.

Tenancy In Common: An undivided ownership in real estate by two or more persons, without right of survivorship—interests need not be equal.

Trustee: The neutral third party in the deed of trust with limited powers. When the loan is paid in full, the property is reconveyed by the trustee back to the person or persons legally entitled to the land, or if delinquent, the property will be conveyed pursuant to non judicial foreclosure proceedings, to the highest bidder in a public sale.

Trustor: The borrower, owner and guarantor of the property conveyed in a deed of trust.

Veterans Administration Loan (VA Loan): Housing loan to veterans by banks, savings and loans, or other lenders that are guaranteed by the Veterans Administration, enabling veterans to buy a residence with little or no down payment.

Warranty: In broad sense, an agreement or undertaking by a seller to be responsible for present or future losses of the purchaser occasioned by deficiency or defect in the quality, condition or quantity of the thing sold. In a stricter sense, the provision or provisions in a deed, lease or other instrument conveying or transferring an estate or interest in real estate under which the seller becomes liable to the purchaser for defect in or encumbrances.