CLOSING COSTS

This list will give you an idea of what items are typically included in closing costs (not the specific amounts, as fees can vary). The buyer and seller may negotiate "Who Pays What", but once the contract is signed, instructions cannot be changed unless mutually agreed upon by all parties in writing.

REAL ESTATE COMMISSION – If the property is listed or sold by an agent, there will be commission(s) to calculate.

TAXES – The seller is required to pay the property taxes through the last day of ownership.

HOMEOWNER INSURANCE – The buyer will purchase a fire and hazard insurance policy. Frequently the lender requires the first year's insurance premium to be paid at close of escrow.

ASSESSMENTS AND LIENS – Assessments or liens against individuals and/or the property must be paid off before the close of escrow. The title company will normally show much of the information in the Preliminary Report or Commitment and the escrow officer will work with the appropriate parties to clear up any problems so that the escrow may close.

ESCROW FEES AND TITLE INSURANCE – Depending upon the customs of the area, the seller or the buyer can pay the title insurance fee that is referred to as the owner's (or homeowner's) policy. The owner's policy covers the new owner's interest and "title" to the new property. The buyer typically pays for the "lender policy" that will cover the new lender's interest in the "title" to the property. "Who pays" the escrow fee is frequently dictated by county or regional custom, but is generally split between the buyer and the seller except on certain types of government of loans.

INSPECTIONS AND OTHER FEES –

- Attorney's fees
- Loan fees
- Notary fees
- Natural hazard disclosure report
- Pest Inspection
- Special courier or delivery fees
- Document preparation fees
- Deed recording charges
- Home warranty
- Tax service fees
- Pest correction costs

ESCROW FLOWCHART

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Buyer & Seller sign purchase & sale agreement

Buyer places deposit

Buyer or seller's broker/agent opens escrow

Escrow holder orders preliminary report from title company

THE ESCROW PROCESS

Escrow prepares instructions & documents

Escrow holder reviews preliminary report

Request demands for payoff

Escrow holder reviews demands & documents

Buyer & seller sign & return escrow supplemental

Escrow hold forwards the "Statement of Identity" to title officer to clear title under general index

Escrow holder calls lender to find out status & conditions

Obtain loan approval; check terms; order loan documents

Escrow holder reviews file. Have all conditions been met?

Are termite reports, new insurance, homeowner's association information & data on liens complete? Prepare additional documents, if needed

Escrow holder receives loan documents

Buyer's loan documents are signed & returned to escrow holder with remainder of funds.

Escrow holder reviews buyer & seller file, verifying that documents are properly executed and notarized, that funds are good & that all conditions have been met

Escrow holder requests funds from lender

Escrow holder & title company review title insurance requirements

Escrow holder receives funds from lender

Record deed, close file, prepare statements, disburse funds & prepare 1099 report

WHY DO YOU NEED TITLE INSURANCE?

Title Insurance. It's a term we hear and see frequently- we see reference to it in the Sunday real estate section, in advertisements, in conversations with real estate brokers. If you've purchased a home before, you're probably familiar with the benefits and procedures of title insurance. But if this is your first home, you may wonder, "why do I need another insurance policy? It's just one more bill to pay."

The answer is simple: The purchase of a home is most likely one of the most expensive and important purchases you will ever make. You, and your mortgage lender, want to make sure the property is indeed yours-lock, stock and barrel- and that no individual or government entity has any right, lien, claim or encumbrance to your property.

Title insurance companies are in business to make sure your rights and interests to the property are clear, that transfer of title takes place efficiently and correctly and that your interests as a home buyer are protected to the maximum degree.

Title Insurance companies provide services to buyers, sellers, real estate developers, builders, mortgage lenders and others who have an interest in real estate transfer. Title companies routinely issue two types of policies- "owners," which covers you, the home buyer, and "lender's," which covers the bank, savings and loan or other lending institution over the life of the loan. Both are issued at the time of purchase for a modest, one-time premium.

Before issuing a policy, however, the title company performs an extensive search of relevant public records to determine if anyone other than you has an interest in the property. The search may be performed by title company personnel using either public records or more likely, information gathered, reorganized and indexed in the company's title "plant". With such a thorough examination of records, any title problems can usually be found and cleared up prior to your purchase of the property. Once a title policy is issued, if for some reason any claim which is covered under your title policy is ever filed against your property, the title company will pay the legal fee involved in defense of your rights, as well as any covered loss arising from a valid claim. That protection, which is in effect as long as you or your heirs own the property, is yours for a one-time premium paid at the time of purchase.

The fact that title companies work to eliminate risks before they develop makes the title insurance decidedly different from other types of insurance you may have purchased. Most forms of insurance assume risks for losses arising from an unforeseen event; say a fire, theft of accident. The purpose of title insurance, on the other hand, is to eliminate risks and prevent losses caused by defects in title that happened in the past. Risks are examined and mitigated before property changes hands.

This risk elimination has benefits to both you, the home buyer, and the title company: it minimizes the chances adverse claims might be raised, and by so doing reduces the number of claims that have to be defended or satisfied. This keeps costs down for the title company and your title premiums low.

Buying a home is a big step emotionally and financially. With title insurance you are assured that any valid claim against your property will be borne by the title company, and that the odds or a claim being filed are slim indeed.

Isn't sleeping well at night, knowing your home is yours, reason enough for title insurance?

OTHER PARTIES TO AN ESCROW TRANSACTION

In addition to the buyer, seller, lender and real estate agent(s), escrow may involve several other parties. For example: Appraisal, Home Warranty, Home Inspection, Termite/Pest Inspection and Disclosure Report

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 (and 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: (1) the inspection of the subject property, and (2) 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 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. FNF offers Home Warranty coverage at www.homewarranty.com or 1.800.862.6837

HOME INSPECTIONS

A home inspection is another component of the escrow process. It is a physical examination to identify material defects in 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 and chimneys and building exteriors.

IS YOUR HOME INSPECTOR INSURED?

They should have: Professional Liability Insurance Coverage, General Liability and Workers 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.

TERMITE/PEST INSPECTION

This report is prepared by a State Certified Inspector as evidence of the existence or absence of wood destroying organisms or pests which were visible and accessible on the date the inspection was made. In almost every instance when they receive a request for an inspection the caller refers to it as a "termite" inspection. In addition to looking for subterranean termites, the inspector is also looking for signs of activity from other wood organisms such as:

- Carpenter ants
- Carpenter bees
- Wood destroying fungus
- Dry wood termites

These conditions are easy to spot and in most cases are simple and inexpensive to correct. If you aren't certain about the condition of your property, seek assistance from s State Certified Termite Inspector.

CLOSING COSTS AND WHO PAYS WHAT

Title Insurance. Closing costs are what the buyer and seller will pay as part of the escrow transaction. Some fees are negotiable between the seller and buyer as to "Who Pays What." Below is an example of some typical closing costs which may vary from county to county.*

PAID BY BOTH OR EITHER PARTY

- Attorney Fees, Courier/Delivery Fees, Document Preparation
  For deed(s) and other legal documents required to consummate the transaction
- Escrow Fee
  Often split between buyer and seller
- Homeowner's Association (HOA) Dues and Transfer Fees
- Notary Fees
- To witness documentation
- Recording Fees
- To file legal documents with County Recorder
- Property Taxes
- Owner's Title Insurance Premium
- Lender's Title Insurance Premium

BUYER'S TYPICAL COSTS

- Appraisal
  One-time fee for new loan
- Credit Report
  For loan application
- Homeowner's Insurance
  Paid by buyer for fire/hazard insurance
- Loan Fees
  Origination and processing fees charged by lender
- PMI
  Some lenders require Private Mortgage Insurance
- Prepaid interest
  Prorated depending on time of month the loan closes
- Property Inspections, Pest Inspection/Correction
  Termite Report

SELLER'S TYPICAL COSTS

- Real Estate Commission
- Disclosure Reports
  Natural Hazard Report
- Home Warranty, Existing Encumbrances
- Transfer Tax
  City/County conveyance tax

**This list is an example only of typical closing costs*

ESCROW AND TAXES

CHANGE OF OWNERSHIP FILINGS

When property changes hands, local government agencies require notice of change of ownership. At the local level, this would be any county office that assesses or collects taxes. Reporting a change in ownership of the property allows the local jurisdiction to assess the tax liability for each property as the title is transferred from seller and 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 other property identifying number, the property location and tax address. Also required is the total purchase price, terms of sale and signature of the new owner. The reporting document is recorded along with documents evidencing a change in owndership. In California, the document is called a Preliminary Change of Ownership (PCOR), and it assists the local agency in identifying situations in which a property reassessment is allowed under Proposition 13.

Penalties or fines may be assessed from the governing body for failure to file the documents as required by state or local laws. 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.

FEDERAL REQUIREMENTS

The Internal Revenue Service (IRS) requires that sellers report certain information pertaining to sale of real property. Under the Tax Reform Act of 1986, reportable transactions include sales and exchanges of properties including, but not limited to, houses, townhouses, and condominiums. Also reportable in 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 of properties.

The escrow office, as the settlement agent, will ask the seller to complete a Certificate for Information Reporting for the 1099-S form which maybe required by the IRS. The seller is required to provide his or her 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.

PROPERTY TAXES

Homeowners pay property taxes to their appropriate assessment, collection of 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 predesigned 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 payment on the principal and interest on 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.

TRANSFER TAXES

Transfer Tax, often called Real Property Transfer Tax, is a tax collected by the County Recorder when an interest in real property is conveyed. It is paid at the time of recording, and is computed using the actual sales price. An amount, legislated by the state of county, is charged per $500 or $1,000 of the sales price. Although it is common for the seller to pay this tax, in some areas tradition dictates that the buyer and seller will split the payment.

Many cities have levied an additional tax within their jurisdictions. In some counties, these taxes are collected by the County Recorder along with county transfer tax, but in other areas a separate check will be mailed to the city. Your escrow officer is familiar with the taxes required and will coordinate payment of the appropriate amount.

WITHHOLDING REQUIREMENTS (CALIFORNIA)

Some state, such as California, require that certain sellers "prepay" their required state taxes through withholding of a percentage of the sale proceeds. State law requires that the buyer accomplish the withholding, and he/she may be subject to penalties for failure to withhold and send the appropriate amount to the State Franchise Tax Board. However, the buyer may delegate this responsibility to the escrow holder, and the escrow holder may charge a fee for this service. The law requires the escrow agent to give written notice of the withholding requirement to the buyer.

Most sellers will qualify for an exemption to the withholding law. Here are some of the exemption situations:

- Principal residence
- Property that is part of a like-kind exchange
- Properties under $100,000
- Sales that result in zero gain or loss for state tax purposes
- Property owned by certain corporate and partnerships
- Properly ownership by tax-exempt entities

The escrow holder will provide a state withholding form to the seller to help determine if any of the exemptions apply. The withholding guidelines can seem quite complex, but your escrow officer has forms and educational materials to help educate your clients. Further information is also available through your local Franchise or Tax Board or from the American Land Title Association.

WHAT IS ESCROW?

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PROPERTIES

Escrow is process that evolved to ensure protection for all parties to a real estate transaction. A "neutral third party" or "stakeholder" was nominated to hold the funds until the purchaser received appropriate assurance that the property had been transferred. An escrow may also be created for other purchases, although it is most commonly used during the transfer of real estate. Today the escrow is overseen by an escrow officer employed by an independent escrow company or title company. All parties are protected because the escrow holder will retain funds and documents until all the instructions are fulfilled.

An escrow is created when money and/or documents are deposited with the escrow officer. The escrow officer's authority is strictly governed by written instructions, mutually agreed upon by the parties involved. The instructions direct the escrow holder to perform duties necessary to complete the transaction. A few of the tasks which may be required are:

- Receive and deposit earnest money
- Order information for payoff of existing liens
- Calculate and/or prorate taxes, liens, interest, rents, and insurance policies
- Make arrangements for title insurance protection for the buyer and lender
- Prepare and/or receive documents relating to the escrow
- Request and receive funding from new lender when conditions have been satisfied
- Arrange for recording of the conveyance documents and any other legal instruments required to transfer title to the property pursuant to the terms of the purchase agreement
- Close the escrow and disburse funds are agreed upon in the instructions
- Prepare a closing statement for the parties showing disposition of funds

DEFINITION OF "ESCROW" FROM BLACK'S LAW DICTIONARY

A writing, deed, money, stock or other property delivered by the grantor, promissor or obligor into the hands of a third person, to be held by the latter until the happening of a contingency or performance of a condition, and then by him delivered to the grantee, promissee or obligee. A system of document transfer in which a deed, bond or funds is delivered to a third person to hold until all conditions in a contract are fulfilled.

FUN FACT

Escrow practices evolved from English common law. The word "escrow" is actually derived from the Middle English (12th to 15th century) word for "scroll", on which all of the escrow instructions and lists of properties were recorded.

STEPS FOR A SUCCESSFUL ESCROW

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1. Ask for your ESCROW REFERENCE NUMBER to use for all future communications.

2. READ the Commitment for Title Insurance or Preliminary Report. If you do not understand and item, contact your escrow or title officer.

3. COMMUNICATE with your escrow officer, keeping him/her informed of all related issues such as payoffs, releases, loan approvals, etc.

4. INFORM your escrow officer of any changes. Make sure all changes are in writing. Remember, with rare exceptions, escrow officers act only on mutual instructions.

5. UNDERSTAND the tax calendar, debits, credits prepaid interest, impounds, etc. Ask questions if you do not understand. Familiarize yourself with typical closing costs.

6. ALLOW TIME for your escrow officer to review the loan documents prior to the signing appointment.

7. Make sure that FUNDS are deposited into escrow on time. (Closing funds are by certified/ cashier's check or wire.)

8. CHECK all documents upon receipt and before returning them to verify the following:

    - *Changes are all initialed.*
    - *Signatures are correct, signed exactly as shown, with middle initials and spelling.*
    - *Notaries, when required, are completed and the seal is clearly placed.*
    - *Vesting is shown correctly.*
    - *Addresses and phone numbers are supplied for all future correspondence.*
    - *Addendums are executed.*

9. Last minute changes and/or credits could delay the close of escrow 6+ days to allow for TRID required waiting periods.

HOW TO HIRE A CONTRACTOR

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Buyers and sellers will often have to hire a contractor to do work on a home. But who do you hire and where do you look? Here are some tips that can help you avoid problems down the line.

GET MULTIPLE BIDS FROM LICENSED CONTRACTORS.

Remember that you're the shopper here, so don't settle for just one bid. Check with the Contractors State License Board to make sure each contractor's license is active and in good standing. If one of the bids is noticeably low, watch out — that person may be cutting corners or not pulling necessary building permits.

GET IT IN WRITING.

Since a written contract protects you and the contractor, all agreements should be put in writing.

SPECIFIC CONTRACTS ARE GOLDEN.

Make sure the contract includes everything that has been agreed to, up to and including complete cleanup and removal of debris and materials, along with special requests like saving lumber for firewood or saving certain materials or appliances.

GET A COPY.

Once you sign, both you and the contractor are bound by everything set down in the contract. Make sure to get a copy of the contract and keep it for your records.

IT'S OKAY TO UPDATE.

Make sure to note changes in writing on a change order and include any price changes. After a change order is signed, it becomes part of the written contract.

CHECK THE FINANCIAL TERMS.

The contract should include the total price, when payments will be made, and whether there is a cancellation penalty. You should expect to make a down payment on any home improvement job. That down payment should never exceed 10% of the contract price or $1,000., whichever is less.

Source: Contractors State License Board (CSLB)