HOME BUYER'S HANDBOOK

Lawyers Title
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ADVANTAGES TO HOME OWNERSHIP

Whether you are looking for more space to raise a family or the perfect place to make your own, there are many advantages to owning your own home, ranging from the purely personal to the very practical.

For many people, the motivation for home ownership is primarily financial. Owning your own home is a first-rate investment for a number of reasons:

Scheduled Savings

When you buy a house, your monthly mortgage payments serve as a type of scheduled savings plan. Over time you gradually accumulate what lenders call "equity," an ownership interest in the property that you can often borrow against or convert into cash by selling the house. In contrast, renters must continue paying rent to a landlord for as long as they rent, without the opportunity to build equity.

Stable Housing Costs

Another advantage to home ownership is that while rent typically increases year after year, mortgage payments can remain unchanged throughout the entire repayment period. In fact, because of the effect of inflation, over the years you pay the same amount but with devalued dollars. So, what may seem like a substantial payment now will become very affordable after cost-of-living increases.

Increased Value

Houses typically increase in value, or "appreciate," over time. It's not unusual to find a house that sold for $150,000 fifteen years ago to be valued at much more than that amount today. This increased value is as good as money in the bank to the homeowner.

Tax Benefits

Homeowners also get significant tax breaks that are not available to renters. Most importantly, interest paid on a home mortgage is usually deductible. This factor alone can save you a substantial amount each year in federal income taxes.

HOME BUYING PROCESS CHART

HOME BUYER

Interview & Select Agent → Evaluate Needs & Wants → Pre-Qualify for Home Loan → Find the Perfect Home → Offer to Purchase Home → Offer Accepted; Negotiate Terms → Purchase Agreement Accepted

OPEN ESCROW

Choose Escrow & Title Company → Deposit Earnest Money → Seller's Transfer Disclosure Statement → Title Search Preliminary Report

Secure Lender → Begin Loan Process → Property Inspections → Property Appraisal → Purchase Homeowner's Insurance → Loan Approval → Remove Financial Contingencies

CLOSE ESCROW

Deposit Balance of Down Payment to Escrow → Sign Closing & Loan Papers → Loan Funding → Record Documents → Escrow Closed!

HOME BUYING STEP BY STEP

Choose & Meet Your Realtor

Building a solid relationship with a realtor is important. He or she will be working closely with you in finding the perfect home to meet your unique needs. Professional realtors have extensive market knowledge and will provide guidance in your buying process.

Finding the Perfect Home

Your realtor will show you homes based on the criteria that you have given him. The more precise and direct you are with your realtor, the more successful your search will be.

Determine the Seller's Motivation

Once you have found your perfect property, your realtor will research the homeowner's motivation for selling, helping leverage your negotiating power in an offer to purchase.

Offer to Purchase

Your realtor will draft a purchase agreement, advising you on customary practices, local regulations, and protective contingencies. You will need to provide an "earnest money" deposit at this time, usually ranging from 1% to 3% of the purchase price (deposit amount is not cashed until your offer is accepted by the seller).

Your realtor will present your offer to the seller's realtor. The seller will then either accept your offer, counter your offer or reject your offer.

Seller's Response

You and your realtor will review the seller's response. Your realtor's knowledge of the process and strong negotiating skills will help you reach an agreement you feel good about.

Open Escrow

Your realtor will open escrow for you once the purchase agreement is accepted and signed by all parties. Your "earnest money" will be deposited at this time. All funds associated with your transaction, either held, received, or distributed, will be handled by your escrow or title company.

Contingency Period

This time period is determined by your purchase agreement and is used to obtain and perform the following items:

- Physical Inspection of Property
- Property Pest Inspection
- Property Appraisal
- Secure a Lender
- Obtain Loan Approval
- Approval of Seller's Transfer Disclosure Statement
- Preliminary Report Approval from Title Company
- Satisfy Purchase Contingencies

Homeowner's Insurance

Your realtor will work with your escrow officer and insurance agent to ensure your policy is in effect by the close of escrow.

Down Payment Funds

Prior to the closing date of escrow, you will need a cashier's check or wire transfer.

Close Escrow

You will sign all loan documents and closing papers when all conditions of the purchase agreement have been met. After you deposit the balance of your down payment and closing costs to the escrow officer, your lender will deposit the balance of the purchase price. The County Recorder's office will record the deed, and you will take ownership of your home.

HOME BUYER'S GUIDE TO ESCROW

What Is Escrow?

When the decision is made to purchase a property, terms and conditions are established for the ownership transfer of that property.

These terms and conditions are given to a third party known as the escrow holder. The escrow holder acts for both parties and protects the interests of each within the authority of the escrow instructions.

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, and the seller deposits the deed and any other necessary documents with the escrow holder. Prior to close of escrow, the buyer deposits the balance of required funds with the escrow holder.

The escrow holder delivers the monies to the seller and forwards the deed to the title company for recording. The title company notifies the escrow holder that a policy of title insurance can be issued, showing title to the property is vested in the name of the buyer.

The escrow holder handles the prorations and adjustments on any fire/hazard insurance, real estate taxes, rents, interest, etc., based on the escrow instructions of both parties.

Escrow is completed once all terms and conditions have been satisfied and all parties have signed escrow documents.

How Do I Open an Escrow?

Your real estate agent will open the escrow for you. As soon as you execute your purchase agreement/ joint escrow instructions, your agent will place your initial deposit into an escrow account with a closing company, such as Lawyers Title.

How Will I Know Where My Money Has Gone?

Written evidence of your deposit is generally included in your copy of the purchase agreement/ joint escrow instructions. Your funds will then be deposited in a separate escrow or trust account and processed through a local bank.

How Long Is an Escrow?

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

What Information Will I Have to Provide?

Confidential Statement of Identity Because many people have the same name, the statement of identity is used to identify the specific person in the transaction by determining date of birth, social security number, etc. The statement form is necessary and the information is kept confidential.

Lender Information Provide the escrow holder with the name, address and phone number of your lender as soon as possible after opening escrow.

Hazard/Fire Information If you are purchasing a single family, detached home, or in some cases, a town home, be sure to order your fire/hazard insurance once your loan has been approved. You should immediately begin looking for an insurance agent; not all companies can write fire hazard insurance. Call your escrow holder with the insurance agent's name and phone number so that he/she can make sure the policy complies with your lender's requirements. You must have your insurance in place before the lender will fund money to the title company.

Title To Home Page 10 shows common ways of holding title to help you understand the criteria for determining how you wish to hold title to your home. The escrow holder will need this information in order to prepare the grant deed, and your lender will need this information to prepare loan documents. We suggest you consult an attorney, tax consultant, or other qualified title professional before you decide.

What Is "Close of Escrow"?

The close of escrow signifies legal transfer of title from the seller to the buyer. Approximately three days before the scheduled close of escrow date, the loan documents are executed by the buyer. The new lender takes 24 to 72 hours to review the final executed documents and then wires the loan funds to the title company. Escrow collects the remainder of the buyer's down payment and closing costs. When loan funds are wired, the file is then set up to record (a legal transfer of title from the seller to the buyer). The escrow holder then handles all final accounting, issuance of official closing statements and disbursement of any remaining proceeds to all parties.

HOME BUYER'S GUIDE TO ESCROW
Who Pays for What?

On these pages, you will find the traditional distribution of expenses associated with a purchase of real estate. However, many of these items can be negotiated by both parties at the time of the offer, excluding some expenses required by the lender to be paid specifically by seller.

Buyer Typically Pays For:

- Escrow fees
- Document preparation (if applicable)
- Notary fees
- Recording charges for all documents in buyer's name
- Termite inspection (according to contract)
- Tax proration (from date of acquisition)
- Homeowner's transfer fee
- All new loan charges (except those required by lender for seller to pay)
- Interest on new loan from date of funding to 30 days prior to first payment date
- Assumption/Change of Records fees for take-over of existing loan
- Beneficiary Statement fee for assumption of existing loan
- Inspection fees (roofing, property inspection, geological, etc.)
- Home Warranty (according to contract)
- Lender's policy
- Fire insurance premium for first year

Seller Typically Pays For:

- Real estate commission
- Escrow fees
- County documentary transfer tax (55 cents per $500 of consideration, exclusive of the value of any lien or encumbrances attaching to the property at time of sale)
- Applicable city transfer/conveyance tax (according to contract)
- Document preparation fee for deed
- Any loan fees required by buyer's lender
- Payoff of all loans in seller's name (or existing loan balance if being assumed by buyer)
- Interest accrued to lender being paid off
- Statement fees, reconveyance fees and any prepayment penalties
- Termite inspection (according to contract)
- Termite work (according to contract)
- Home Warranty (according to contract)
- Any judgments, tax liens, etc., against the seller
- Tax proration (for any taxes unpaid at time of transfer of title)
- Any unpaid homeowner's dues
- Recording charges to clear all documents of record against seller
- Any bonds or assessments (according to contract)
- Any and all delinquent taxes
- Notary fees — escrow fee
- Title insurance premium: Owner's Policy

HOME BUYER'S GUIDE TO ESCROW
Escrow Process Chart

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 holder 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

HOME BUYER'S GUIDE TO TITLE INSURANCE

Real estate has always been considered an individual's most valuable asset. For most people, it is the most significant investment they will make in their lives. Because it is such an important factor in our society, it is granted unique treatment under the law. When you purchase real estate, you actually acquire the title to the property, rather than the land itself. Your title encompasses ownership, use and possession of the land. However, title to property may be limited by rights and claims asserted by others.

Problems with title can limit your use and enjoyment of real estate and have negative financial consequences. Title defects also threaten the security interest your mortgage lender holds in the property.

Protection against hazards of title is available through a unique coverage known as title insurance. Unlike other kinds of insurance that focus on possible future events and charge an annual premium, title insurance is purchased for a one-time payment and is a safeguard against loss arising from hazards and defects already existing in the title, with extended coverage available to cover certain future events, as well.

Two Kinds of Title Insurance

There are two basic kinds of title insurance: owner's coverage and lender's (or mortgagee) protection. Owner's title insurance ordinarily is issued in the amount of the real estate purchase and may last forever, even after the insured has sold the property, depending on the type of owner's policy.

By contrast, the amount of lender's title insurance necessary decreases and eventually disappears as the loan is paid off. Most lenders require mortgagee title insurance as security for their investment in real estate, just as they require fire insurance and other types of coverage as investor protection.

Elimination of Risk

Risk elimination assures that the policy holder has the best possible chance for avoiding title claim and loss.

The title insurance process begins with a search of title records specific to the property being purchased. The search results may uncover items found in the title history that need to be corrected before a clear title can be conveyed, such as:

- Outstanding mortgages, judgments and tax liens;
- Deeds, wills and trusts that contain improper vestings and incorrect names;
- Incorrect notary acknowledgments;
- Easements.

Hidden Defects

In spite of the expertise and dedication that go into a search and examination, hidden defects can emerge after completion of a real estate purchase, causing an unpleasant and costly surprise. Some examples include:

- Previously undisclosed heirs with claims against the property;
- A forged deed that transfers no title to real estate;
- Instruments executed under expired or fabricated power of attorney;
- Mistakes in the public records.

Title insurance offers financial protection against these and other hidden defects of title through negotiation by the title insurer with third parties, payment for defending against an attack on title as insured, and payment of claims.

Title Insurance a Must

Thanks to title insurance, home buyers can enjoy protection against many title claims and potential losses. When title insurance is provided, lenders are willing to make mortgage funds available in geographical areas where they know little about local market conditions.

Title insurance policies offer unique safeguards that are essential for secure investments by both real estate purchasers and lenders.

Title Insurance Policy Comparisons

CLTA (STANDARD)

1. Someone else owns an interest in your title
2. A document is not properly signed
3. Forgery, fraud, duress, incompetency
4. Defective recording of a document
5. Unmarketability of title
6. Lack of a right of access to and from the land

HOMEOWNER'S POLICY

7. Mechanic's lien protection
8. Forced removal of residential structure — encroachments
9. Forced removal of residential structure — restrictions
10. Forced removal of residential structure — zoning
11. Cannot use land for SFR due to zoning or restrictions
12. Unrecorded liens by the homeowner's association
13. Unrecorded easements
14. Others have rights arising out of leases, contracts or options
15. Pays rent for substitute housing
16. Plain language
17. *Building permit violations — forced removal
18. *Subdivision law violations
19. *Zoning violations — forced removal
20. *Boundary wall or fence encroachment
21. Restrictive covenant violations
22. Post-policy defect in title
23. Post-policy contract or lease rights
24. Post-policy forgery
25. Post-policy easement
26. Post-policy limitation on use of land
27. Post-policy encroachment by neighbor other than wall or fence
28. Enhanced access — vehicular and pedestrian
29. Damage to structure from use of easement
30. Street address is correct
31. Map shows correct location of the land
32. Exercise of mineral rights
33. Sale fails due to neighbor's encroachments
34. Living trust coverage
35. Coverage for spouse acquiring through divorce
36. Automatic policy increase up to 150%
37. Forced removal due to building setbacks
38. Discriminatory covenants
39. Insurance coverage forever

Note: Items marked with an * are subject to a deductible and maximum liability, which is less than the policy amount. This chart is intended for comparison purposes only and is not a full explanation of policy coverage. Policy coverages are subject to the terms, exclusions, exceptions and deductibles shown in the policy.

Information deemed reliable but not guaranteed. (01/09)

HOME BUYER'S GUIDE TO TITLE INSURANCE
Ways to Hold Title to Real Property

	COMMUNITY PROPERTY	COMMUNITY PROPERTY WITH RIGHT OF SURVIVORSHIP	JOINT TENANCY	TENANCY IN COMMON	PARTNERSHIP	TRUST
PARTIES	Husband and wife or domestic partners.	Husband and wife or domestic partners.	Any number of persons (can be husband and wife or domestic partners).	Any number of persons.	Any number of partners.	Any number of beneficiaries of the trust.
DIVISION OF INTERESTS	Equal.	Equal.	Equal.	Any number of interests, equal or unequal.	Partnership interests may be equal or unequal.	Beneficial interests under trust may be equal or unequal.
TITLE	In the names of the individual owners.	In the names of the individual owners.	In the names of the individual owners.	In the names of the individual owners.	In the name of the partnership.	In the name of the trustee, "as trustee."
POSSESSION	Equal right of possession.	Equal right of possession.	Equal right of possession.	Equal right of possession.	According to partnership agreement.	According to trust agreement.
CONVEYANCE	Both spouses must join in a conveyance.	Both spouses must join in a conveyance.	Conveyance by one co-owner breaks the joint tenancy.	Each co-owner's interest may be conveyed separately.	Any general partner authorized by the partnership agreement may convey.	Trustee may convey in accordance with the trust agreement.
DEATH	Decedent's 1/2 interest passes to survivor unless devised by will.	Decedent's 1/2 interest passes to survivor.	Decedent's interest passes to the survivor(s).	Decedent's interest passes to decedent's estate.	Partnership agreement provides for either termination or continuance of the partnership.	Trust agreement usually provides for distribution upon death of the settlor.
SUCCESSOR'S STATUS	Tenancy in common between devisee and survivor results.	Survivor owns entire interest.	Last survivor owns entire interest.	Devisees or heirs become tenants in common.	Heirs or devisee have rights in partnership interest but not in specific property.	Trust agreement usually provides for distribution upon death of the settlor.
CREDITOR'S RIGHTS	Community property is liable for the debts of either party incurred before or during marriage or domestic partnership.	Community property is liable for the debts of either party incurred before or during marriage or domestic partnership.	Co-owner's interest may be sold at an execution sale to satisfy the co-owner's judgment creditor.	Co-owner's interest may be sold at an execution sale to satisfy the co-owner's judgment creditor.	Only a partner's right to receive profits can be executed upon by the partner's judgement creditor.	Usually, a creditor cannot execute on a beneficiary's interest.

This chart is for reference purposes only. How title is vested has important legal consequences, and this chart should not be relied upon to make that decision. You should consult an attorney to determine the most advantageous form of ownership for your particular situation. Someone who is not an attorney cannot give advice regarding how to hold title because doing so would constitute the unlawful practice of law. (03/08 TR)

Information may vary state to state.

LIFE OF A TITLE SEARCH

Customer service verifies legal property description & how title to real property is held

↓

Preliminary order & title search are opened

↓

Preliminary search of real property is done

↓

Title search examines real property records, general index records & tax records

↓

Examiner reviews complete search package & writes preliminary report

↓

Data processor enters preliminary title information into computer & prepares preliminary report

↓

Messenger service delivers prelims to escrow & lenders

↓

New documents, demands & statement of information submitted to title company

↓

Escrow authorizes recording of new documents in the transaction

↓

Documents are recorded, confirmation of recording is received & liens of record are paid off

↓

Title officer writes title policies

↓

Data processor prepares final title policies

↓

Title policies released to client

HOME BUYER'S GUIDE TO HOME LOANS

There are great advantages to working with a professional, reliable lender. Some of their crucial services are:

Pre-qualification A lending professional can pre-qualify you, which will assist you in finding a home in your price range. A pre-qualification can also provide you with more negotiating power when it comes to making an offer on a home.

Finding the right loan at competitive prices
Instead of shopping all over town for the best pricing, a loan broker can shop for the best loan at the best possible price, allowing you the freedom to select the loan best suited to your needs.

Efficient follow-up and teamwork Once the transaction has been negotiated, your lender and other support teams work hand-in-hand in order to ensure that the loan is processed and funded in a timely manner. This collaboration keeps you informed along the way of all important details and helps in locating and handling any unforeseen situations before they become a problem.

How Does the Loan Process Work?

When applying for a loan, you will complete a loan application which will require personal and financial information. Your real estate agent can provide you with current financing information and can also help you select a lender.

What Happens After I Submit the Loan Application?

The lender will begin the qualification process, including verification of information submitted on the application and appraisal of the property.

The lender will require that you obtain hazard/fire insurance if you are purchasing a detached home. However, if you are buying a condominium or townhouse there may already be a master hazard policy. The lender will also require that you obtain title insurance and may have other requirements that will need your attention prior to the close of escrow. Your real estate agent can help you take care of these requirements well in advance.

The Loan Is Approved: What's Next?

When your loan is approved and the loan documents are sent to the escrow holder handling your transaction, the escrow holder will prepare an estimated closing statement which specifies the disposition of your purchase funds in a debit and credit format.

When Do I Sign Loan Documents?

Generally, your escrow instructions will be mailed to you for 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?

Obtain a cashier's check made payable to your escrow company or title company in the amount indicated to you by the escrow officer. You may also wire funds. A personal check will delay closing because the check must clear before funds are disbursed.

Please bring your **valid state identification card, driver's license or passport** with you to the escrow company. 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 Documents?

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 volume.

HOME BUYER'S GUIDE TO HOME LOANS

What Is a FICO Score?

FICO scoring is a formula for credit risk assessment that is believed to be highly predictive of a borrower's future payment risk. A borrower's score is derived by weighing credit information at a snapshot in time and assessing "points" for each piece of information. The information is taken from a credit bureau file and scores are based on credit information only. By law, an applicant's credit worthiness cannot be judged on race, religion, marital status, gender or nationality. According to Fair Isaac, the information is, therefore, objective and consistent and does not discriminate.

FICO scoring is reflective of credit patterns over a period of time. One late payment will not ruin your credit score. However, a history of late payments and high credit balances will have a serious effect on an individual's score.

Events That Seriously Affect Credit Risk Assessment

- Bankruptcy
- Non-bankruptcy derogatory public records
- Charge-offs or loan defaults
- Repossession
- Serious delinquency

Other Considerations In Credit Risk Assessment

- Number and age of trade lines
- Presence of derogatory trade line information
- Current level of indebtedness
- Types of credit available (revolving vs. installment)
- Amount of time credit has been in use
- Credit inquiries

It is important to address potential credit issues before applying for your home loan. New debt will have an immediate negative impact on a buyer's score. Revolving debt has higher negative impact on a borrower's score than installment debt. "Shopping" for credit and opening new credit card accounts to pay off old accounts will influence scores. Pay down balances on open trade accounts, and pay your bills on time consistently.

Borrowers with low credit scores are now, more than ever before, able to purchase homes. A wide variety of home loan products is available to those buyers through alternative lenders. Talk to your realtor about your options.

HOME BUYER'S GUIDE TO HOME LOANS

Points Defined

Points are an up-front charge that the lender adds to the overall price of the mortgage. Each point equals one percent of the loan amount. Lenders use this money to pay for loan-related costs and to keep loan interest rates lower. Typically, the more points, the lower the interest rate. There are two primary kinds of points. Lenders might charge origination points to cover loan expenses, or they might create an opportunity for borrowers to pay discount points to reduce the loan's interest rate.

Do The Number Of Points Charged Fluctuate?

Yes — sometimes daily. World events, financial news, stock market performance, and other things can determine whether points go up or down. But ultimately, it is the lender's decision and not set by government or other regulation. Mortgage lending is an investment. So if mortgage loans rates drop lower than other investments, such as stocks and bonds, investors will move away from the mortgage market. And when business needs or government borrowing puts a high demand upon the money market, home mortgage expenses typically go up. Lenders use points to encourage borrowing and to stay profitable.

Who Pays Points?

It depends on the loan. For an FHA loan, buyers usually pay the points or loan origination fee, while the buyer or seller can pay the discount fee. When it comes to VA loans, buyers usually pay the points and the funding fee, and the seller pays the discount fee. Finally, on a conventional loan, anything goes: the buyer or the seller can pay the fee, or they can decide to split it.

Is There a Way To Lock-In Points?

For conventional and FHA loans, many lenders give you the opportunity to lock-in rates at any time for a specified time period — typically anywhere from 30 to 180 days. The longer the lock period, the higher the risk for the lender and, therefore, the higher the cost for the borrower. VA loan points cannot be locked and will shift based on the current, government-set interest rates.

Are Points Tax Deductible?

Points are deductible in the year they are paid if the points meet certain conditions. The mortgage must be secured by your primary residence — the home you live in most of the time. The home loan must be used to either purchase or build your home. Points must also be clearly stated on the HUD1 settlement statement. There are other conditions as well. If conditions are not met, points can still be deducted by amortizing them over the life of the loan. If the loan is refinanced, the remaining unclaimed points can be deducted in the year the original loan is paid off. To learn more, check with your tax specialist.

HOME BUYER'S GUIDE TO HOME LOANS

What Is PMI?

Buying a home is easier than ever, thanks to the availability of private mortgage insurance, or PMI. Private mortgage insurance 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 20–30% down payment that would be required without private mortgage insurance.

Definition of Private Mortgage Insurance (PMI)

Private mortgage insurance, or 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 price, your lender will require you to carry PMI. This will protect the lender from a 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.

Appraisal of Property

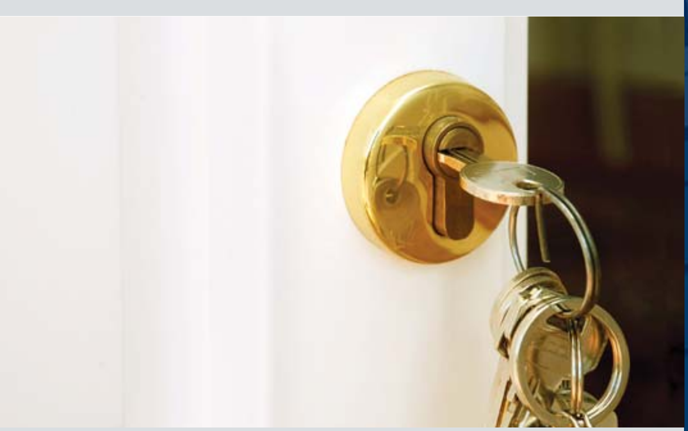
The appraisal process consists of several steps. Having an idea of what is involved in appraising a piece of property can greatly help you maximize the appraised value and avoid costly details and reinspections.

The following are the major steps in the sequence normally followed by appraisers:

- Research the property in question as to size, square footage, bedrooms, baths and year built.
- Research local comparable properties. The appraiser will locate at least three homes that have similar square footage, are within a one mile radius, and have sold within the last six months.
- Conduct a field inspection of the subject property.
- Conduct a field inspection of exterior of the selected comparable properties.

The subject inspection consists of taking photos of the street and exterior of the home. The appraiser will inspect the home interior for condition, noting any items that would detract from or add to the value of the home. He or she will also draw a floor plan of the home while doing the inspection. Comparable properties inspection is limited to home exteriors.

After the field inspection has been completed, the appraiser must determine a final estimated value. This form of estimating value is called the Direct Sales Comparison Approach to Value, and it accounts for nearly all of the considerations in determining the value of single family homes.



HOME BUYER'S GUIDE TO PROPERTY TAXES

Property Tax Defined

Property tax is a tax administered by local government districts. Tax rates vary from county to county and are based on a predetermined percentage of an annually assessed value of each individual property. Property taxes are paid in biannual installments.

Paying Property Taxes On Your Newly Purchased Home

Paying your first year of property taxes can be tricky, depending on when you close escrow on your new home. If your property is in escrow, and the sellers have just paid property taxes, then your agent should request proof of payment. Because it can take up to six weeks for a property tax payment to post, the preliminary title report may show that property taxes are still due. Proof of property tax payment by the seller will allow escrow to close successfully without a potential tax hold.

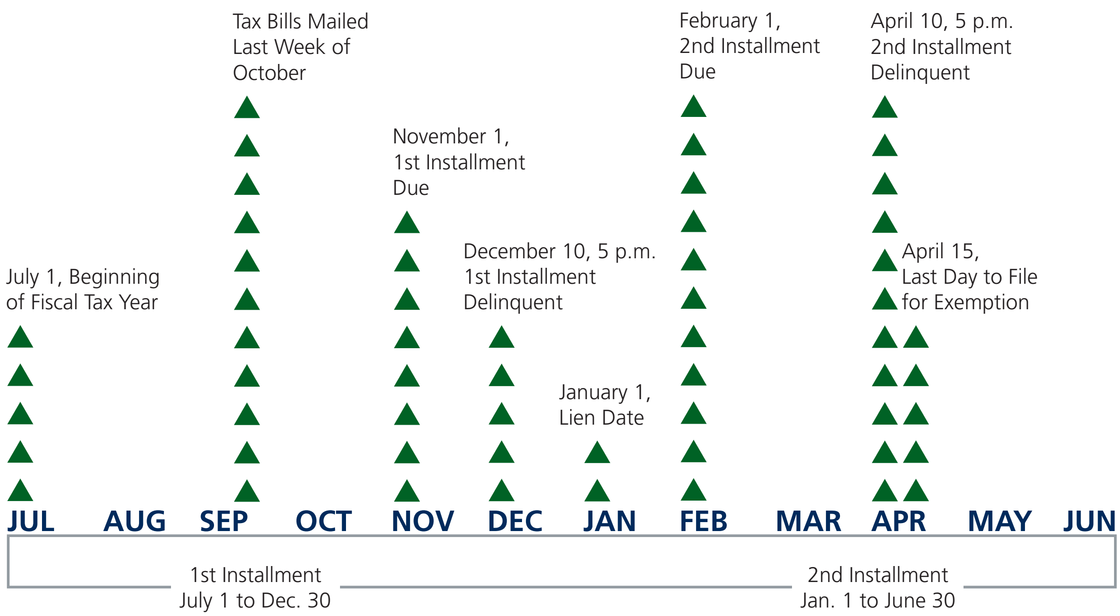
If you purchased your property between January and October, your property tax bill may be forwarded to the seller's new address. If you do not receive your property tax bill by the middle of October, contact your County Tax Collector and request a duplicate tax bill be sent to you. You are still obligated to pay your first property tax installment by the November 1st due date, even if you have not received a tax bill from the county. *Refer to the tax calendar on page 17 to help you keep track of important property tax due dates and the penalties for delinquent payments.*

If you close escrow near December 10th, and the seller has not yet paid property taxes, then the seller will need to make a check payable to the Tax Collector and forward it to the escrow holder. The escrow holder will see that the title company forwards it to the county. If the check does not clear by the escrow close date, then a hold may be required.

What Is an Impound Account?

An impound account is a convenient way for borrowers to ensure that their property tax and insurance payments are paid in a timely manner. Your lender can set up an impound account which will allow them to collect property tax and hazard insurance payments from you on a monthly basis. The impound payment is collected with your monthly mortgage principal and interest payment and is calculated by taking your yearly tax and annual insurance payment and amortizing it over 12 months, along with a mandatory pad of at least two additional months worth of payments for each. The lender will pay the County Tax Collector and the insurance company directly by drawing the property tax and the insurance premium from the account when the property tax installments are due (November and February) and when the insurance premium is due.

HOME BUYER'S GUIDE TO PROPERTY TAXES
Home Owner's Property Tax Calendar



		Important Dates
JUL	Jul. 1 — Beginning of Fiscal Tax Year to July 1 of Following Year Jul. 1 — Properties with Delinquent Taxes Sold to State	July 1 on — One or Both Installments Delinquent Additional Penalties Apply
AUG		
SEP	Sept. (Mid) — Tax Rates Set	
OCT	Oct. (Last Week) — Tax Bills Mailed	
NOV	Nov. 1 — First Installment Due (July 1 to December 31)	
DEC	Dec. 1 — Last Day to File for 80% Homeowner's or Veteran's Exemptions* Dec. 10 — First Installment Delinquent at 5 p.m.	December 10, 5 p.m. 1st Installment Delinquent Additional Penalties Apply
JAN	Jan. 1 — Lien Date (Tax Liens for Next Year Attach)	
FEB	Feb. 1 — 2nd Installment Due (January 1 to June 30)	
MAR	Mar. 1 — Taxes on Unsecured Roll Due	
APR	Apr. 10 — 2nd Installment Delinquent at 5 p.m. Apr. 15 — Last Day to File Homeowner's or Veteran's Exemptions*	April 10, 5 p.m. 2nd Installment Delinquent Additional Penalties Apply
MAY		
JUN	Jun. 8 — Publication Date for Delinquent Taxes	

*Veterans must own and occupy property on the 1st of March to be eligible for veteran's exemption.

Information deemed reliable but not guaranteed. (01/09)

HOME BUYER'S GUIDE TO SUPPLEMENTAL PROPERTY TAXES

Supplemental Property Tax Defined

The supplemental real property tax law came into effect in 1983 and is part of an ambitious drive to aid California's public school system. If you plan on purchasing or building a new home, this law will affect you.

Supplemental property tax is a one-time tax which dates from the time you take ownership of your property or complete construction until the end of the tax year on June 30.

How Will The Amount of My Bill Be Determined?

There is a formula used to determine your tax bill. Supplemental property tax is based on the difference in assessed value of a home when purchased by the prior owner and the newly assessed value when purchased by you. If you are building a home, the supplemental property tax is based on the difference in value of the land before a home was constructed and the new property value after a home is built.

The total supplemental assessment will be prorated, based on the number of months remaining until the end of the tax year, June 30.

Will My Supplemental Taxes Be Prorated In Escrow?

No. Because supplemental tax is a one-time tax and is in effect from the actual date you take ownership of property, it will be billed to you by your County Controller/Tax Collector.

When and How Will I Be Billed?

You will be advised of your supplemental assessment amount when your property is appraised during the lending process. You will then have an opportunity to discuss your valuation, apply for a Homeowner's Exemption and possibly file an Assessment Appeal. Your county will then calculate your supplemental tax and mail you a bill. This can happen anywhere from 3 weeks to 6 months after close of escrow. A lien is put on your property for the supplemental taxes, so be sure to pay your taxes by the date noted on your supplemental tax bill.

Can I Pay My Supplemental Tax Bill in Installments?

All supplemental taxes on the secured roll are payable in two equal installments. The taxes are due on the date the bill is mailed and are delinquent on specified dates, depending on the month the bill is mailed, as follows:

1) If the bill is mailed within the months of July through October, the first installment will become delinquent on December 10 of the same year. The second installment will become delinquent on April 10 of the next year.

2) If the bill is mailed within the months of November through June, the first installment will become delinquent on the last day of the month following the month in which the bill is mailed. The second installment will become delinquent on the last day of the fourth calendar month following the date the first installment is delinquent.

Will My Supplemental Tax Be Prorated?

The supplemental tax becomes effective on the first day of the month following the month in which the change of ownership or completion of new construction actually occurred. The table of proration factors shown in the chart below is used to compute the supplemental assessment on the current tax roll.

EFFECTIVE DATE	PRORATION FACTORS	EFFECTIVE DATE	PRORATION FACTORS
August 1	0.92	February 1	0.42
September 1	0.83	March 1	0.33
October1	0.75	April 1	0.25
November 1	0.67	May 1	0.17
December 1	0.58	June 1	0.08
January 1	0.50	July 1	0

HOME BUYER'S GLOSSARY OF TERMS

Adjustable Rate Mortgage (ARM): A mortgage loan under which the interest rate is periodically adjusted to more closely coincide with the current rates. The amounts and times of adjustments are agreed to at the inception of the loan. (Compare to fixed rate loans.)

Adjustment Period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one year ARM, which means that the interest rate can change once a year.

Amortization: Repayment of a loan in equal installments comprised of principal and interest, rather than interest only.

Annual Percentage Rate (APR): The total finance charge (interest, loan fees, points expressed as percentage of the loan amount). The APR is disclosed as a requirement of the federal Truth in Lending statutes.

"As-Is Condition": Premises accepted by a buyer in the condition existing at the time of the sale, including all physical defects.

Assumption of Mortgage: A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to assume the loan.

Buydown: A payment to the lender from the seller, buyer, third party or some combination of these, causing the lender to reduce the interest rate during the early years of a loan. The buydown is usually for the first 1 to 5 years of the loan.

CAP: The limit of how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

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

Closing Costs: Expenses incidental to the sale of real estate, such as loan fees, title fees, appraisal fees, etc.

Closing Statement: The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance and mortgage insurance. The form used for the closing statement is the HUD 1.

CLTA New Homeowner's Policy: A widely used title insurance policy that offers the most extensive title insurance coverage available for homeowners. Special conditions and deductibles apply. Ask your Lawyers Title professional for more information.

Contingency Clause: The dependence upon a stated event which must occur before a contract is binding. For example: The sale of a house, contingent upon the buyer obtaining financing.

Conversion Provision: A provision in some ARM's to convert the loan to a fixed rate loan, usually after an adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed rate mortgages. This conversion feature may be at an extra cost.

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

Due on Sale Clause: An acceleration clause that requires full payment of a mortgage or deed of trust when the secured property changes ownership.

Earnest Money: The portion of the down payment delivered to the seller or escrow agent by the buyer, with a written offer as evidence of good faith.

Escrow: A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both party's instructions and assuming responsibility for handling all of the paperwork and distribution of funds.

Fair Market Value: Price that probably would be negotiated between a willing seller and willing buyer in a reasonable time. Usually arrived at by using comparable sales in the area.

Federal National Mortgage Association (FNMA): Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by the FHA or guaranteed by the VA as well as conventional home mortgages.

HOME BUYER'S GLOSSARY OF TERMS (cont.)

FHA Loan: A loan issued by the Department of Housing and Urban Development. The Federal Housing Administration (FHA) guarantees its payment in event of default by the owner.

Finance Charge: The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z of the Truth in Lending law.

Flood Insurance: Insurance indemnifying against loss by flood damage. Required by lenders in areas federally designated as potential flood areas. The insurance is private but is federally subsidized.

Graduated Payment Mortgage: A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Grant Deed: One of the many types of deeds used to transfer real property. Contains warranties against prior conveyances or encumbrances. When title insurance is purchased, warranties in a deed are of little practical significance.

Grantee: One to whom a grant is made. Generally the buyer.

Grantor: One who grants property or property rights.

Hazard Insurance: Real estate insurance protecting against loss caused by fire, some natural causes, vandalism, etc., depending upon the terms of the policy.

Home Inspection Report: A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structural and mechanical systems.

Home Owner's Association:

1) An association of people who own homes in a given area, formed for the purpose of improving or maintaining the quality of the area.

2) An association formed by the builder of condominiums or planned developments and required by statute in some states. The builder's participation as well as the duties of the association are controlled by statute.

Home Warranty Plan: Protection against failure of mechanical systems with the property. Frequently includes plumbing, electrical, heating systems and installed appliances.

Homestead: The dwelling (house and contiguous land) of the head of a family. Some states grant statutory exemptions, protecting homestead property (usually to a set maximum amount) against the rights of creditors. Property tax exemptions (for all or part of the tax) are also available in some states. Statutory requirements to establish a homestead may include a formal declaration to be recorded.

HUD 1: The form used for the closing statement. *(See Closing Statement.)*

Impound Account: Account held by a lender for payment of taxes, insurance, or other periodic debts against real property. For example, the mortgagor or trustor pays a portion of the yearly taxes with each monthly payment. The lender pays the tax bill from the accumulated funds.

Index: A measure of interest rate changes used to determine changes in an Adjustable Rate Mortgage interest rate over the term of the loan.

Joint Tenancy: An equally undivided ownership of property by two or more persons. Upon death of any owner, the survivors take the decedent's interest on the property. (*See chart on page 10.)*

Lien: A legal hold or claim on property as security for a debt or charge.

Loan Commitment: A written promise to make a loan for a specified amount on specific terms.

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

Lock or Lock-in: A lender's guarantee of an interest rate for a set period of time.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Negative Amortization: Negative amortization occurs when the monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has

HOME BUYER’S GLOSSARY OF TERMS (cont.)

a payment cap that results in monthly payments that aren’t high enough to cover the interest.

Origination Fee: A fee or charge for establishing a new loan.

Owner’s Policy: Title insurance for the owner of property, rather than a lienholder.

PI: Principal and interest. Used to indicate what is included in a monthly payment on real property. If the payment includes only principal and interest, property taxes and hazard insurance would make the total payment higher. *(See PITI.)*

PITI: Principal, interest, taxes and insurance. Used to indicate what is included in a monthly payment on real property. Principal, interest, taxes and insurance are the four major portions of a usual monthly payment.

Point: An amount equal to 1% of the principal amount of the investment or note. When referring to mortgages or deeds of trust, the term is used to describe the percentage of discount rather than interest.

Preliminary Title Report: A report showing the condition of title before a sale or loan transaction. After completion of the transaction, a title insurance policy is issued.

Pre-payment Penalty: A fee charged to a borrower who repays a loan before it is due.

Private Mortgage Insurance (PMI): Insurance written by a private company protecting the lender against loss if the borrower defaults on the loan.

Purchase Agreement: A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a Sales Contract, Deposit Receipt, Earnest Money Contract or Agreement for Sale.

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

Regulation Z: Federal Reserve regulation issued under the Truth in Lending Law, which requires that a credit purchaser be advised in writing of all costs connected with the credit portion of the purchase.

Sole Ownership: Ownership of property by an individual or other entity capable of acquiring title.

Statement of Information: A confidential form filled out by buyer and seller to help a title company determine if any liens are recorded against either. Also called a Statement of Identity.

Tax Rate: Traditionally, the ratio of dollars of tax per one hundred or per one thousand dollars of valuation. Modernly, expressed as a percentage of valuation.

Tenancy in Common: A type of joint ownership of property by two or more persons with no right of survivorship. (*For a more detailed explanation, see page 10 of this guide.)*

Title Insurance Policy: A policy that protects the purchaser, lender or other party against losses. Title insurance offers protection against claims arising from various defects (as set out in the policy) which may exist in the title to a specific parcel of land. Lawyers Title routinely issues two types of policies. An “owner’s” policy, which insures the home buyer for as long as they own the property, and a “lender’s” policy, which insures the lender’s security interest over the claims that others may have in the property. For more information on title insurance, please contact your Lawyers Title professional.

VA Loan: A loan that is guaranteed by the Veteran’s Administration and made by a private lender.

Ways of Holding Title: (*Please see the chart on page 10 of this guide.)*

HOME BUYER'S COMPARISON CHECKLIST

HOMES REVIEWED

Property Address ______________________________

Bed _____ Bath _____ ☐ Fireplace ☐ A/C ☐ Garage

Neighborhood ______________ Schools ______________

Age of Home ______________ Shopping ______________

Comments ______________________________

____

Floorplan

☐ Great ☐ OK
☐ Good ☐ Bad

Yard Size

☐ Large ☐ Small
☐ Med ☐ Patio

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Age of Home ______________ Shopping ______________

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____

Floorplan

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Yard Size

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HOME BUYER'S MOVING CHECKLIST

BEFORE YOU MOVE

Address Change

- ☐ All lenders
- ☐ Post office mail forwarding
- ☐ Subscriptions
- ☐ Friends & relatives
- ☐ Notify insurance companies of address change; it may affect your coverages

Bank

- ☐ Transfer funds
- ☐ Order checks w/new address
- ☐ Arrange credit references

Current Utilities

- ☐ Arrange for turn-off of all current utilities

☐ Gas ☐ Electric ☐ Phone
☐ Cable ☐ Water ☐ Trash

New Utilities

- ☐ Arrange for new utilities to be turned on

☐ Gas ☐ Electric ☐ Phone
☐ Cable ☐ Water ☐ Trash

Medical, Dental & Prescription Histories

- ☐ Ask doctor & dentist for referrals; transfer needed prescriptions & medical records

Pets

- ☐ Check on new city's regulations for licenses, vaccinations, tags, etc. Plan for special care and transfer of pets

Moving Company

- ☐ Hire movers
- ☐ Clarify moving insurance coverage
- ☐ Packing & unpacking labor charges
- ☐ Confirm arrival date
- ☐ Confirm method & time of expected payment
- ☐ Carry jewelry & important documents yourself or use registered mail; do not allow movers to carry these items

DON'T FORGET TO . . .

- ☐ Defrost freezer & clean refrigerator
- ☐ Have appliances serviced & prepared for moving
- ☐ Have large area rugs wrapped & prepared to move
- ☐ Double-check closets, drawers & shelves to be sure they are empty
- ☐ Leave all keys, appliance warranties, association & home guides for new owner

If Moving Long Distance

- ☐ Carry cash or travelers checks to cover cost of moving services & expenses until your banking connections have been made in the new city
- ☐ For your safety, advise close friend of route and schedule, including overnight stops

AT YOUR NEW HOME

- ☐ Double-check that all utilities have been turned on
- ☐ Check pilot light on stove, hot water heater & furnace
- ☐ Have all appliances checked out by a professional
- ☐ Have new address recorded on driver's license

If Moving Out Of State

- ☐ Apply for new state driver's license
- ☐ Register car within five days after arrival or there may be a penalty when getting new plates
- ☐ Register family at new place of worship
- ☐ Make arrangements for new medical services, doctor, dentist, veterinarian, etc.
- ☐ Register to vote in new city

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- Home Buying Process Chart
- Home Buying Step by Step
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