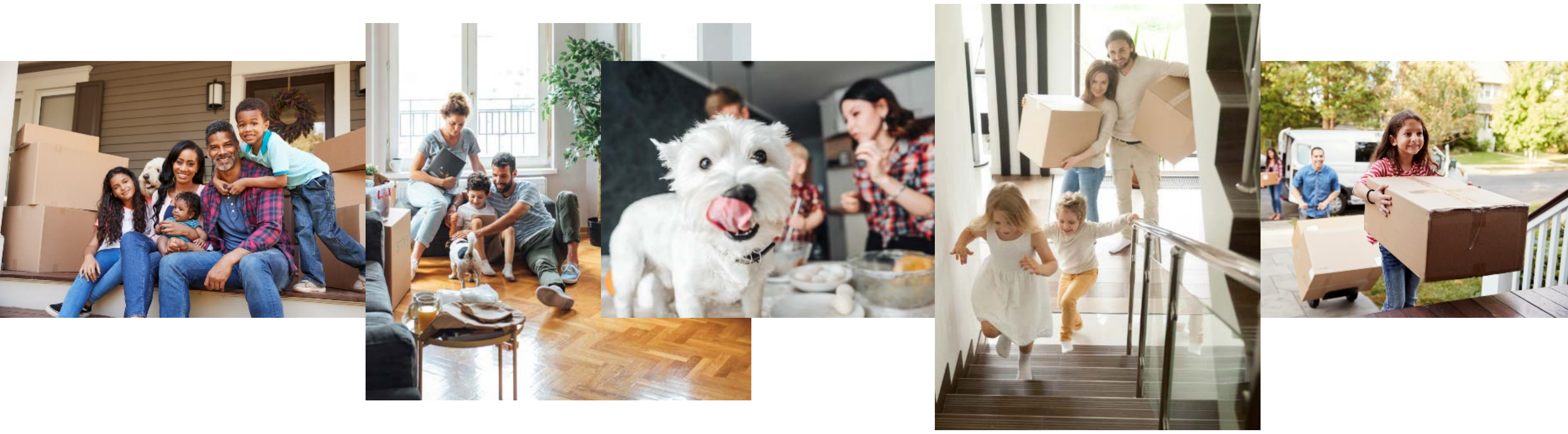
Your Guide on the Road to Home



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Real Estate Closing Guide

Before you can take possession of your new house or condo, you must go through the real estate closing process. Closing is a process that includes lender steps, legal steps and title steps. The process begins once your offer is accepted and you or your real estate agent submit your ratified sales contract to a title company.

The purpose of closing is to research the history of the property's ownership, known as the chain of title, and complete the due diligence necessary to determine the seller of the property in fact has the legal right to sell the property, known as the transfer of title (proof of ownership), to the homebuyer.

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What is Title Insurance?

Most homebuyers purchase two title insurance policies when they close escrow on their new home, but most have no idea what title insurance does or why title insurance is essential to their real estate investment.

In this guide, we will explain the two types of title insurance policies and how title insurance protects the biggest investment most consumers will ever make in their lifetime.

Title Insurance: What is it, and why do you need it?

Remember playing Monopoly as a kid? When you purchased a property, you received a card that proved your ownership of the property. That card, also known the property title or deed, represents legal proof that you are the owner of that particular property.

Title insurance protects against loss due to an unknown title defect that arises in the future. In other words, title insurance covers past claim issues that arise after you purchase or refinance a property.

Title insurance is very different than other types of insurance – such as health, auto or life insurance, and that's why its pricing structure is also different. Whereas most insurances we think of assume risk to cover the policy holder against unknowns in the future, title insurance covers the policy holder against unknowns that occurred in the past.

When you order title for your real estate purchase, you're basically making a request of your title company to research the property's chain of title, or ownership history. The title company will then review land records with your local government's records-keeping office to determine that you, the seller, in fact have the legal authority to sell your property to the home buyer.

Ideally, this title search will complete without incident, but sometimes an issue arises that must be resolved before closing can take place. Common examples of title claims include unknown or missing heirs, fraud and liens placed on a property when a homeowner fails to pay a contractor or homeowner's association.

Especially in cases of fraud, it can be virtually impossible to detect a title claim prior to closing. If a title claim appears, it must be remedied before you as a homeowner are able to sell title (your ownership of the property) and collect payment.

Back to our Monopoly game, let's say one of your opponents, Cindy, falls on hard times and mortgages her Ventnor Avenue property to the bank.

Other players in the game may choose to purchase the mortgaged property from the bank, so you opt to buy Ventnor Avenue, with interest as required by the rules.

After you paid the bank to unmortgage the property another opponent, Jim, claims that he and Cindy made a deal two turns ago and claims he is the rightful owner of Ventnor Avenue. Jim says the property's title card belongs to him, and he should be the one collecting rent because the deal he made with Sally precedes the deal you made with the bank. Who is the rightful owner of Ventnor Avenue? And what happens to the monies exchanged to acquire the property?

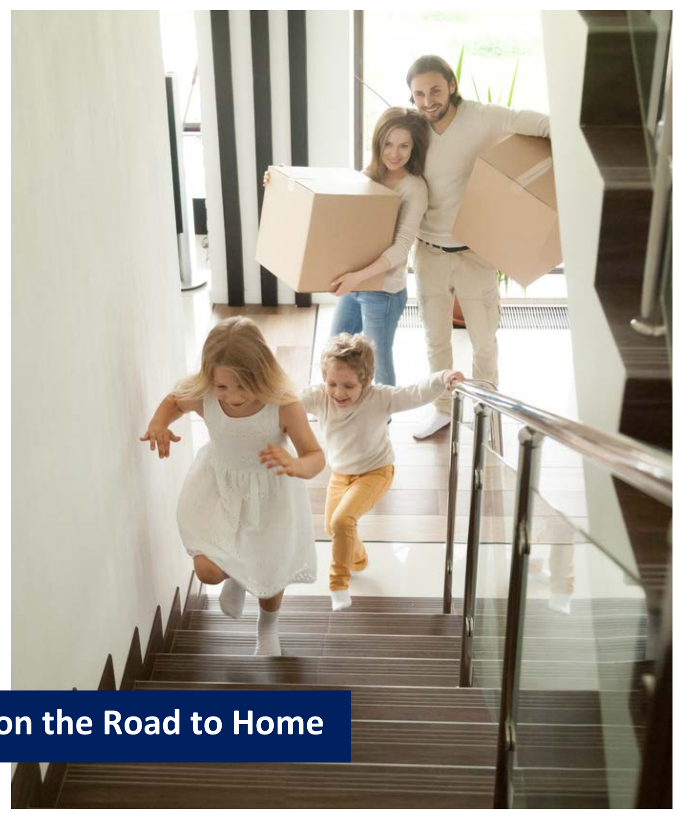
This is an example of a title claim that can arise in real life too.

In real life, Jim's Monopoly title claim would likely result in legal proceedings to determine the chain of title and the title's rightful owner. And in real life, if you have a title insurance policy, the money you spent to purchase the property along with any legal expenses to defend your claim to the property's title would be covered. In the event the courts ruled that Jim's claim takes precedence over your own, your title insurance policy would cover any losses you incurred.

We say "if" because two types of title insurance policies exist for residential purchases, but only one of them is required to purchase a home. The one that isn't required is the one that protects consumers' stakes in the biggest investment most of them will ever make in their lifetime.

Lenders title insurance vs. Owner's title insurance

If you take out a home loan to purchase a house or condo, your mortgage lender will legally require you to purchase a lender's title



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insurance policy as a stipulation of the loan. Such a policy protects the bank's money in the event a title claim arises down the road. (This is also why homeowners who are refinancing their home loan are required to purchase a new title insurance policy – more on that later.)

The other policy is known as owner's title insurance, and it's optional. The owner's title insurance policy covers the homebuyer's down payment, along with the home loan amount and any legal expenses incurred to defend title.

A lender's policy does nothing to indemnify the home owner in the event of a title claim, which is why nearly all consumers opt to purchase both lender's and owner's title insurance at the closing table.

The cost to purchase an owner's policy in addition to the lender's policy is not significantly more because most title insurance underwriters (the institution that issues the insurance policies) offer what's called a "simultaneous issue" title insurance rate when a lender's and owner's title insurance policy are issued together.

This is important to note because sometimes homebuyers may opt out of the owner's title insurance policy thinking it will halve their title insurance costs, only to discover the difference between purchasing just a lender's policy versus purchasing a lender's and owner's title insurance policy together may be a few hundred dollars – a drop in the bucket compared to the tens or hundreds of thousands of dollars most people invest to purchase a house or condo.

Another consideration to keep in mind is that your lender funds dozens of real estate transactions every single day, and lenders legally require a title insurance policy for every loan they issue.

Your lender will not fund your home mortgage loan without a title insurance policy because purchasing residential property without a title insurance policy is deemed too risky. Most homebuyers take a cue from their lender and purchase the owner's title insurance policy when they purchase their lender's policy.

Title insurance coverage doesn't stop with the lender's and owner's policies; owner's title insurance offers two levels of coverage to homebuyers and homeowners who are refinancing.

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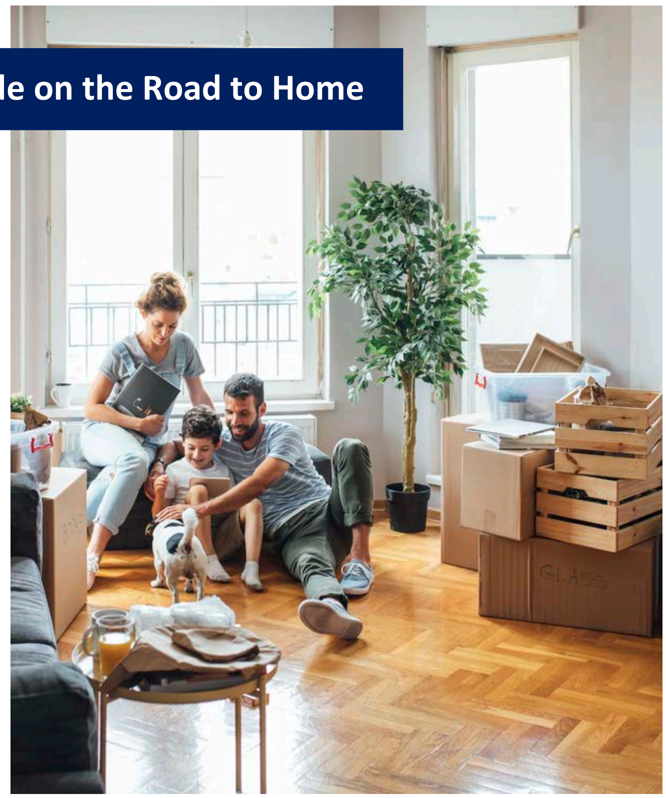

About 30% of Closings Hit Title 'Snags'

Title agents discover an issue with title in roughly 1 in 3 closings. Most title issues are resolved pre-closing, but about 5% result in a title claim.

Oftentimes, buyers and sellers never have to hear about the behind-the-scenes curative work that goes on pre-closing. This is because most consumers choose to purchase an owner's title insurance policy.

What does a title company do?

- Review the Closing Disclosure Form detailing costs
- Explain each document
- Review the wood-destroying organisms (termite) inspection report
- Review the land survey and explain any issues
- Explain how proceeds are disbursed, payoffs are made, and how liens are satisfied
- Record all documents
- Send lender the completed loan package
- Disburse the funds
- Issue title insurance policies

What happens post-closing?

Closing is over, you have purchased your dream house and now you are done working with the title company. However, the title company is not done working for you.

As much work goes into post-closing as pre-closing.

When the closing is completed, the file goes to the post-closing department.

The first step is to prepare the recording package and send it to the local Clerk of Court office for recording. Most files are recorded without trouble, but occasionally recordings are

rejected and need to be corrected and resubmitted.

Eventually, after the recording process is complete, the original Deed and Mortgage are returned to post closing, which in turn forwards the original Deed to the new homeowner and the original Mortgage to the lending bank. Depending on the jurisdiction, this could take up to several weeks.

Post-closing is also responsible for paying off the existing mortgages and/or judgments on the property, obtaining releases for the liens associated with those mortgages and/or judgments and recording said releases in the local Clerk of Court office.

Since the purchaser has obtained a title insurance policy, the purchase is protected whether or not those liens are properly released, but since the title company has issued the insurance and provided a commitment to the bank that those liens will be released, the title company is responsible for making sure that they are in fact released.

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