CALIFORNIA

BUYER & SELLER GUIDE TO TITLE AND ESCROW

Everything you need to know when buying or selling a home in California

CHICAGO TITLE®

INTRODUCTION TO CHICAGO TITLE

We at Chicago Title are proud to be able to provide this helpful guide to understanding the escrow and title process when buying or selling a home in California.

With over 170 years of history in the title industry, Chicago Title offers you the financial strength, experience and expertise needed to close your transactions with confidence and peace of mind.

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

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

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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 certain title claims by third parties or lien holders. It insures the title to the investment, unlocking its potential as a financial asset for the owner.

2. At Chicago Title, we provide title services and handle escrow and closing.

3. Title problems are discovered in many residential real estate transactions. Certain "defects" must be resolved prior to closing. Common defects include missing title interests 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 have 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 health, property or life insurance do.

6. Chicago Title performs a search of existing records to identify possible defects prior to issuing a policy. We perform intensive and extensive work up-front to minimize claims. The better we do this, the lower our 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. Chicago Title's impressive claim reserves gives you unquestionable security and peace of mind knowing that your policy is backed by a leader in the title insurance industry.

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.

10. To get the best value, choose Chicago Title for all your title and escrow needs. Write us in on your next transaction and you'll see why we are worth the money.

Quick Tip

Title insurance insures the title to a real estate investment, unlocking its potential as a financial asset for the owner. As such, title insurance plays a major role in the confidence that lies at the heart of our nation's real estate market and economy.

IMPORTANT CONTACTS FOR YOUR TRANSACTION

Real Estate Agent

Name: _____

Company: _____

Address: _____

City/State/Zip: _____

Phone: _____

Fax: _____

Email: _____

Title

Name: _____

Company: _____

Address: _____

City/State/Zip: _____

Phone: _____

Fax: _____

Email: _____

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: _____

Phone: _____

Fax: _____

Email: _____

Contact

Name: _____

Company: _____

Address: _____

City/State/Zip: _____

Phone: _____

Fax: _____

Email: _____

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 provides the new owner with protection from future claims against the title to the property. It is the most effective, most accepted and least expensive way to protect property ownership rights.

Because land inures 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 may affect the title of any owner.

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 before the 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 such as matters, rights or claims that are not shown by the public records and, therefore, are not discoverable by a search and examination of the those public 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 insures they have a valid and enforceable lien (deed of trust or mortgage) secured by the property, no one else other than those listed on the policy has a prior claim (or loan, etc.) and the party pledging the property as collateral does own the property being used as security for the loan. This protection remains in effect as long as the loan remains unpaid or the lender releases their lien.

The existence of a lender's title policy encourages lenders such as banks, savings and loan associations, commercial bank, 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 ways to recoup the amount loaned should the borrower fail to make their payments. The title company insures that the title to the property serving as the collateral is marketable in the event of foreclosure and the policy is backed by the integrity and solvency of the title insurance 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 minimize title risks to issue a title policy acceptable to the owner before the owner takes title or to the lender prior to lending money.

Our research helps us to determine if there are any rights or claims that may have an impact upon the title such as unpaid taxes, unsatisfied mortgages, judgments, tax liens against the current or past owners, easements, restrictions and court actions. These recorded defects, liens, and encumbrances are identified in a "preliminary report" to applicable parties. Once identified, these matters can be accepted, resolved, or extinguished prior to the closing of the transaction. In addition, you are protected against 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 the 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 due to the occurrence of some future event. For instance, a party obtains automobile insurance in order 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 owner or heirs own the property. There are no annual payments to keep the Owner's 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 a Title Insurance Policy Protect Against Claims?

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

- Providing an attorney to defend the owner/lender, at no cost to the owner/lender, if a lawsuit is filed that challenges the title to the property based on a matter that is insured by the policy, and indemnifying the owner/lender for losses provided under the policy if the owner/lender is unsuccessful in that lawsuit.

Each policy is a contract of "indemnity." The policy covers the costs and fees for legal defense of title for any defect covered under the policy's terms and indemnifies for certain losses up to the policy limits.

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 title of the property. Title insurance protects a policyholder against challenges to rightful ownership of real property, challenges that arise from circumstances of past ownerships.

Examples of Some Title Claims

- When a fire destroys only the house and improvements, but the land is left. A defective title could challenge your right to the title to the underlying land. Title insurance protects you (as specified in the policy) against the loss of the title to the underlying land.
- A deed or mortgage in the chain of title is forged.
- A deed or mortgage may have been signed by an under age person.
- A deed or a mortgage may have been signed by an incapacitated person or one otherwise incompetent.
- A deed or a mortgage may have been executed by an attorney-in-fact, except the power of attorney was previously terminated and would, therefore, be void.
- A deed or a mortgage may have been made by a person other than the owner, but with the same name as the owner.
- The testator of a will might 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 even years after the estate has sold the property.
- A deed or mortgage may have been procured by fraud or duress.
- Title transferred by an heir may be subject to a federal estate tax lien.
- An heir or other person presumed dead was in fact alive and files an action to recover the property or an interest therein
- A judgment or levy upon which the title is dependent may be void or voidable on account of some defect in the proceeding.
- A deed or mortgage may be voidable because it was signed while the grantor was in bankruptcy.
- There may be a defect in a recorded document upon which your title is dependent.
- Claims constantly arise due to marital status and validity of divorces. Only title insurance protects against claims made by a non-resident or divorced spouse.

LIFE OF A TITLE SEARCH

Escrow Officer Opens Title Order with Chicago Title

Customer Service Verifies Legal & Vesting

Title Order is Sent to Searching

Computerized Property Chains, General Index on the Sellers, Buyers are Produced

Searching Assembles Chain, General Index Documents & Obtains Tax Information

Search Package Sent to Examiner to Review & Examine Each Document to Complete and Write the Preliminary Title Report

Preliminary Report is Produced

Preliminary Report is Delivered to Escrow, Proposed Insured & Lenders

New Documents/Demands, Lender's Instructions & Statement of Information Submitted to Title Officer

Title Officer Reviews Documents & Lender's Instructions

Escrow Authorizes Recording

Documents Recorded & Payoffs are Disbursed

Title Policy is Issued

Title to Your Property is Now Protected by the Premier Title Insurance Provider, Chicago Title

ALTA Homeowner's Policy (1-4 Family Residences)

	CLTA	Complete Homeowner's Policy
1. Someone else owns an interest in your title to the property		
2. A document is not properly signed		
3. Forgery and fraud		
4. Defective recording of certain documents		
5. Restrictive covenants		
6. There is a lien on your title because there is: a) a deed of trust b) a judgment, tax or special assessment c) a charge by the HOA (homeowner's assoc.)		
7. Title is unmarketable		
8. Lack of right of access to and from the land		
9. Mechanics' Lien protection		
10. Forced removal of structure because it: a) extends on other land or onto an easement b) violates a restriction in Schedule B of policy c) violates an existing zoning law		
11. Cannot use land for SFD (single-family dwelling)		
12. Unrecorded lien by the HOA		
13. Unrecorded easements		
14. Others have rights arising out of leases, contracts or options		
15. Pays rent for substitute residence		
16. Inflation Protection		
17. Building permit violations – forced removal*		
18. Subdivision Map Act violations*		
19. Boundary wall or fence encroachment - forced removal*		
20. Restrictive covenant violations		
21. Post-policy defect in title		
22. Post-policy contract or lease rights		
23. Post-policy forgery		
24. Post-policy easement		
25. Post-policy limitation on use of land		
26. Post-policy damage from minerals or water extraction		
27. Post-policy living trust coverage		
28. Post-policy encroachment by neighbor other than wall or fence		
29. Enhanced access-vehicular and pedestrian		
30. Damage to structure from use of easement		
31. Post-policy automatic increase of 10% annually up to 150%		
32. Post-policy correction of existing violation of covenant		
33. Home address is incorrect		
34. Map not consistent with legal description		
35. Coverage for spouse acquiring through divorce		
36. Violations of building setbacks		
37. Discriminatory covenants		
38. Insurance coverage forever		

Disclaimer: Due to variations in the policy language and definitions, the foregoing is provided for informational purposes only. Policy forms are available upon request and you are encouraged to request copies of policy forms for your review. The policy that is issued to an insured controls the terms and conditions of the insurer's obligations to its insured.

The deductible amounts and maximum dollar limits shown on Schedule A are as follows:

Policy Deductible	Policy Max Limit of Liability
Covered Risk 17: 1% of Policy amount shown in Schedule A or $2,500.00 (whichever is less)	$10,000.00
Covered Risk 18: 1% of Policy amount shown in Schedule A or $5,000.00 (whichever is less)	$25,000.00
Covered Risk 19: 1% of Policy amount shown in Schedule A or $5,000.00 (whichever is less)	$25,000.00

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.

*Subject to deductible and maximum liability, which is less than the policy amount.

Items 1-8 = CLTA

1. Someone else owns an interest in your title to the property
2. A document is not properly signed
3. Forgery and fraud
4. Defective recording of certain document
5. Restrictive covenants
6. There is a lien on your title because there is:
   a) a deed of trust
   b) a judgment, tax or special assessment
   c) a charge by the HOA (homeowner's assoc.)
7. Title is unmarketable
8. Lack of right of access to and from the land

Items 1-38 = Complete Homeowner's Policy (see pg. 11 for misc. info)

9. Mechanics' Lien protection
10. Forced removal of structure because it:
    a) extends on other land or onto an easement
    b) violates a restriction in Schedule B of policy
    c) violates an existing zoning law
11. Cannot use land for SFD (single-family dwelling)
12. Unrecorded lien by the HOA
13. Unrecorded easements
14. Others have rights arising out of leases, contracts or options
15. Pays rent for substitute residence
16, Inflation Protection
17. Building permit violations – forced removal*
18. Subdivision Map Act violations*
19. Boundary wall or fence encroachment - forced removal*
20. Restrictive covenant violations
21. Post-policy defect in title
22. Post-policy contract or lease rights
23. Post-policy forgery
24. Post-policy easement
25. Post-policy limitation on use of land
26. Post-policy damage from minerals or water extraction
27. Post-policy living trust coverage
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29. Enhanced access-vehicular and pedestrian
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36. Violations of building setbacks
37. Discriminatory covenants
38. Insurance coverage forever

** Subject to deductible and maximum liability, which is less than the policy amount.*

Disclaimer: Due to variations in the policy language and definitions, the foregoing is provided for informational purposes only. Policy forms are available upon request and you are encouraged to request copies of policy forms for your review. The policy that is issued to an insured controls the terms and conditions of the insurer's obligations to its insured.

Pre and Post Policy Protections

The Homeowner's Policy coverage protects homeowners against claims arising both before and after the policy date if the event creating the risk exists on the policy date. The homeowner is covered if someone else has an interest in or claims to have rights affecting title, or the title is defective. Post-policy protection also includes coverage for forgery, impersonation, easements, use limitations and structural encroachments built by neighbors (except for boundary walls or fences).

Expanded Access Coverage

The Homeowner's Policy provides homeowners with expanded access protection for right of access to and from the property. Traditional title policies do not define the type of access a homeowner has to the property, but the Homeowner's Policy specifically insures both actual pedestrian and vehicular access, based on a legal right.

Restrictive Covenant Violations

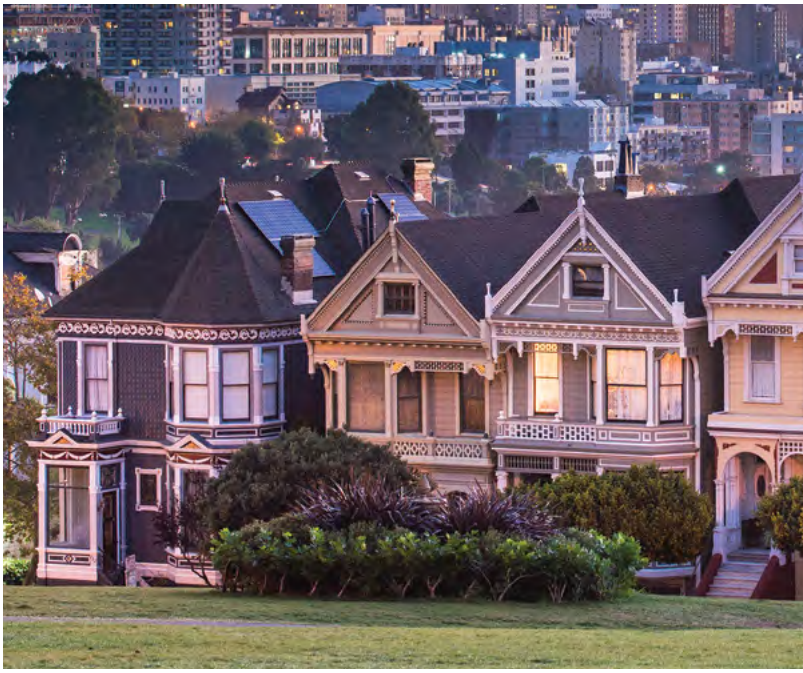
The Homeowner's Policy protects homeowners against the loss of title to the property because of a violation of a restrictive covenant that occurred before the insured acquired title.

Building Permit Violations

The Homeowner's Policy covers homeowners if they must remove or remedy an existing structure (except for boundary walls and fences) because it was built without a building permit from the proper government office. This coverage is subject to deductible amounts and a maximum limit of liability.

Subdivision Law Violations

The Homeowner's Policy protects homeowners if they can't sell the property or get a building permit because of a violation of an existing



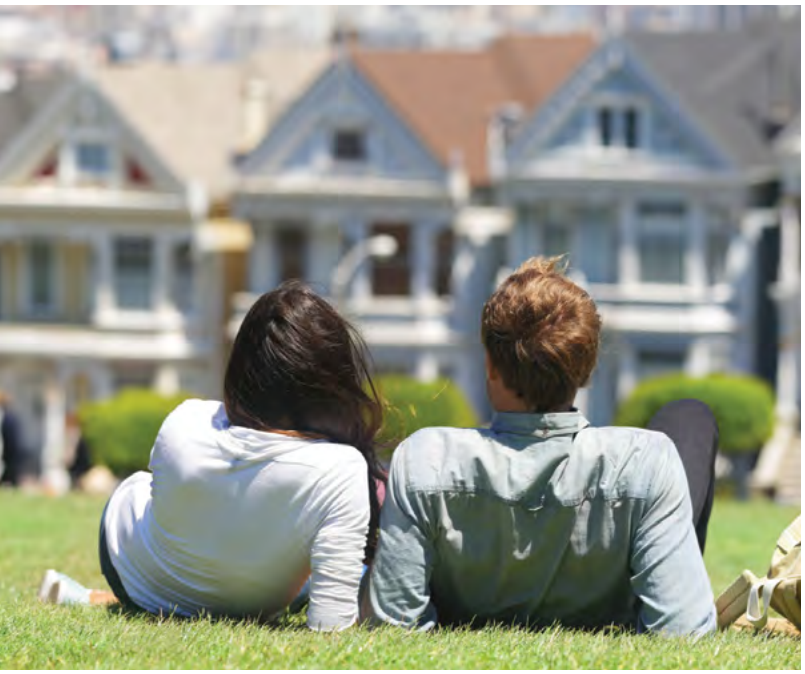
subdivision law. Homeowners are also protected if they are forced to correct or remove the violation. This coverage is subject to a policy deductible and a maximum limit of liability.

Zoning Law Violations

The Homeowner's Policy protects homeowners if they must remove or remedy existing structures because they violate existing zoning laws or regulations (subject to the policy deductible and maximum limit of liability). Homeowners are also protected if they can't use the land for a single-family residence due to the way the land is zoned.

Encroachment Protection

Encroachment protection covers homeowners if forced to remove an existing structure because it encroaches on a neighbor's land (coverage for encroachments of boundary walls or fences is subject to policy deductible and maximum limit of liability). Covers homeowners when someone else has a legal right to, and does, refuse to perform a contract to purchase the homeowner's land, lease it or make a mortgage loan on it because a neighbor's existing structures encroach onto the land.



Water and Mineral Rights Damage

The Homeowner's Policy provides coverage if a homeowner's existing improvements, including lawns, shrubbery and trees, are damaged because someone exercised a right to use the surface of the land for extraction of minerals or water.

Supplemental Tax Lien

The Homeowner's Policy protects homeowners if a supplemental tax lien is filed and assessed against the property because of new construction or a change of ownership happens prior to the policy date.

Map Inconsistencies

The Homeowner's Policy provides coverage if the map attached to the homeowner's policy does not show the correct location of the land, according to public records.

Continuous Coverage

The Homeowner's Policy covers homeowners forever, even if they no longer have the title.

The policy insures anyone who inherits the title because of the homeowner's death and the spouse who receives the title after dissolution of marriage. The Homeowner's Policy also allows homeowners to transfer their home into a trust after the policy date and receive uninterrupted coverage, at no extra cost.

Value-Added Protection

Traditional title policies don't increase their coverage as the value of a home increases. Not so with the Homeowner's Policy. The policy amount automatically increases by ten percent per year for five years, up to 150% over the original policy amount. This automatic increase in coverage is included at no extra cost.

How to Offer Homeowner's Policy Coverage

This information is a general overview of the coverages and protections the Policy provides. It should not be construed as a full statement of coverage of policy provisions. This policy has been adopted by both the California Land Title Association (CLTA) and the American Land Title Association (ALTA).

Your Chicago Title Sales Executive can provide you and your clients with information about the Homeowner's Policy coverage in simple, easy to understand language. Your Sales Executive is also available to meet with your clients personally to explain the Homeowner's Policy or any other title or escrow related product we offer. Simply request information about the Homeowner's Policy when opening an escrow. It's that easy!

Conditions, Stipulations and Further Information

Call your Chicago Title Sales Executive for more information or specifics about policy language pertaining to this and other products. The Homeowner's Policy Coverage has certain deductibles, liability limitations, exceptions and exclusions which apply to some coverage items.

Chicago Title Can Save Investors Hundreds of Dollars

Saving Short-Term Investor Money

Investors who plan to sell their acquired properties within 2 years from the date of original policy issuance should consider obtaining an Interim Binder for savings on title insurance premiums.

The fee for this binder is 10% of the applicable owner's policy fee at the time of purchase.

At the time of sale, the interim binder is exercised and applied to the issuance of the new owner's policy of title insurance. Any additional fee for this new policy is calculated based upon the increased liability AND the type of policy requested.

Facts:

- √ **Property was last insured 4 1/2 years ago**
- √ **Person A sells the property to Person B for $400,000.00**
- √ **In less than 2 years, Person B sells to Person C for $500,000.00**

Without an Interim Binder:

Original Sales Price:	$400,000.00
Homeowner's Title Fee:	$1,438.00
Sells within 2 Years:	$500,000.00
Homeowner's Title Fee:	$1,646.00

Person B pays $1,646.00 to resell his property

With an Interim Binder:

Original Sales Price:	$400,000.00
Homeowner's Title Fee:	$1,438.00
Buyer Pays Additional 10%	$144.00
Sells within 2 Years:	$500,000.00
Homeowner's Title Fee:	$1,646.00
Less the Original Fee:	$1,438.00
Interim Binder Fee for Conversion:	$208.00

Person B pays $352.00 to resell his property ($144.00 + $208.00)

$1,294.00 SAVINGS

If the investor decides to hold the property for more than 2 years, he can extend the already active Interim Binder for another 2 years for an additional 10% ($144.00) provided the extension is requested prior to the expiration date of the binder.

Other fees and charges may apply. Amounts shown herein are examples and subject to change without notice.

WHAT IS THE PRELIMINARY REPORT?

The Chicago Title Preliminary Report is an offer to issue a policy of title insurance covering a particular estate or interest in land subject to stated exceptions.

Since these exceptions identify certain items which have been found of public record which affect the title to the property, it is important for all parties to review the report once it is received.

A preliminary report provides a list of the matters which will be shown as exceptions to coverage in a designated policy of title insurance covering a particular estate or interest in land. It is intended to provide a preliminary response to an application for title insurance and is intended to facilitate the issuance of the requested policy.

The preliminary report states it is made solely to facilitate the subsequent issuance of a title insurance policy and that the insurer assumes no liability for errors in the report. Accordingly, any claim arising from a defect in the title must be made under the title policy and not the preliminary report.

If a title policy is not contemplated, a preliminary report should not be ordered. Instead, consideration should be given to requesting a property profile or other similar title product.

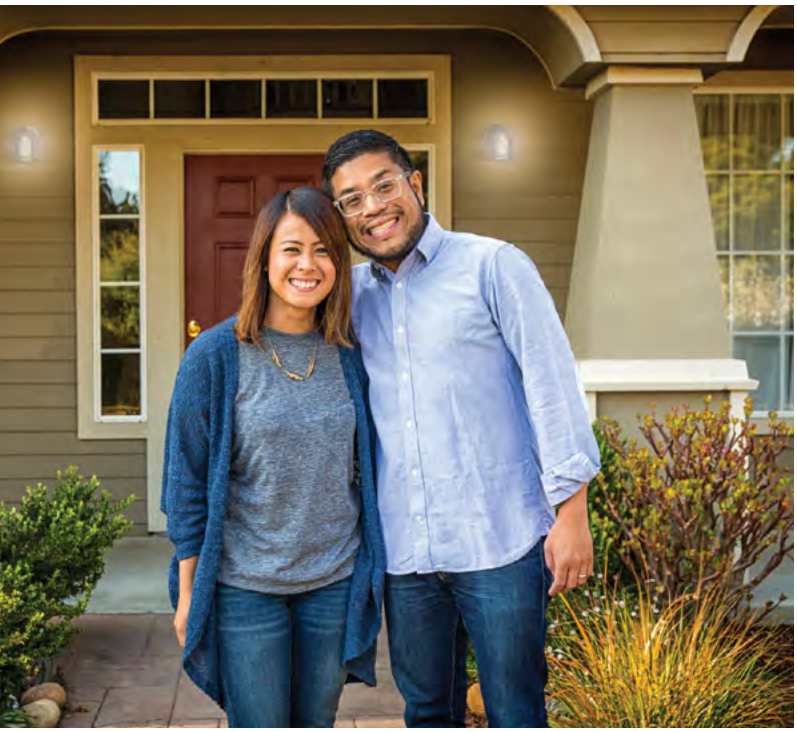
After a title order has been placed, matters relative to the title policy coverage on the subject property are assembled in a title search package and examined by skilled technicians. This is when the preliminary report is prepared and sent to the customer. The report contains relevant information so that the parties to the transaction will become aware of matters which will not be insured against by the title company. This report is issued before the title policy, hence the name preliminary report.

Understanding Statements of Information

What's in a name? When a title company seeks to uncover matters affecting title to real property, the answer is, "quite a bit."

A Statement of Information, or SI, provides title companies with the information they need to distinguish the buyers and sellers of real property from others with similar names. After identifying the true buyers and sellers, title companies may disregard the judgments, liens or other matters on the public record under similar names.

To help you better understand this sensitive subject, the CLTA (California Land Title Association) has answered some of the questions most commonly asked about Statements of Information.



What is a Statement of Information?

A Statement of Information is a form routinely requested from the buyer, seller or borrower in a transaction where title insurance is sought. The completed form provides the title company with information needed to adequately examine documents so as to disregard matters which do not affect the property to be insured, matters which actually apply to some other person.

What Does a Statement of Information Do?

Every day documents affecting real property – liens, court decrees, bankruptcies – are recorded. Whenever a title company uncovers a recorded document in which the name is the same or similar to that of the buyer, seller or borrower in a title transaction, the title company must ask, "does this document affect the parties we are insuring?" Because if it does, it affects title to the property and would, therefore, be listed as an exception from coverage under the title policy.

A properly completed Statement of Information will allow the title company to differentiate between parties with the same or similar names when searching documents recorded by name. This protects all parties involved and allows the title company to competently carry out its duties without unnecessary delay.

CONCURRENT CO-OWNERSHIP INTERESTS For use in CALIFORNIA

	Community Property	Joint Tenancy	Tenancy in Common	Partnership Holding Title	Title Holding Trust	Community Property Right of Survivorship	Registered Domestic Partners
PARTIES	Married spouses or domestic partners	Any number of persons (can be married spouses or registered domestic partners)	Any number of persons (can be married spouses or registered domestic partners)	Only partners (any number)	Any natural person who has capacity to take and hold property may be a trustee. A domestic corporation may act in any trust capacity if properly authorized	Married spouses or domestic partners	Only partners that are registered with the California Secretary of State's domestic Partners Registry.
DIVISION	Ownership and managerial interests are equal (except control of business is solely with managing spouse)	Ownership interest must be equal	Ownership can be divided into any number of interests equal or unequal	Ownership interest is in relation to interest in partnership	Ownership is a personal property interest and can be divided into any number of interests	Ownership and managerial interests are equal	Ownership and managerial interests are equal (except control of business is solely with managing domestic partner)
TITLE	Title is in the "community." Each interest is separate but management is unified	Sale or encumbrance by joint tenant severs joint tenancy	Each co-owner has a separate legal title to his/her undivided interest	Title is in the "partnership"	Legal title is held by the trustee; beneficiary has equitable title	Title is in the "community," management is unified	Title is in the "community." Each interest in separate but management is unified
POSSESSION	Both co-owners have equal management and control	Equal right of possession	Equal right of possession	Equal right of possession but only for partnership purposes	Right of possession as specified in the trust provisions	Both co-owners have equal management and control	Both co-owners have equal management and control
CONVEYANCE	Personal property (except "necessaries") may be conveyed for valuable consideration without consent of other spouse; real property requires written consent of other spouse, and separate interest cannot be conveyed except upon death	Conveyance by one co-owner without the others breaks the joint tenancy	Each co-owner's interest may be conveyed separately by its owner	Any authorized partner may convey part or entire interest in partnership property for partnership purposes. Purchaser acquires interest that partnership owned	Designated parties within the trust agreement authorize the trustee to convey property. Also, a beneficiary's interest in the trust may be transferred	Right of survivorship may be terminated pursuant to the same procedures by which a joint tenancy may be severed	Personal property (except "necessaries") may be conveyed for valuable consideration without consent of other partner; real property requires written consent of other partner, and separate interest cannot be conveyed except upon death
PURCHASER'S STATUS	Purchaser can only acquire whole title of community; cannot acquire a part of it	Purchaser will become a tenant in common with the other co-owners in the property as to the purchaser's interest. Other owners may remain joint tenants	Purchaser will become a tenant in common with the other co-owners in the property	Purchaser can aquire part of entire interest in partnership property. If in part, the purchaser will become a tenant in common with the partnership	A purchaser may obtain a beneficiary's interest by assignment or may obtain legal and equitable title from the trust	Purchaser can only acquire whole title of community; cannot acquire a part of it	Purchaser can only acquire whole title of community; cannot acquire a part of it
DEATH	On co-owner's death, 1/2 belongs to survivor in severalty. 1/2 goes by will to descendant's devisee or by succession to survivor	On co-owner's death, his/her interest ends and cannot be disposed of by will. Survivor owns the property by survivorship	On co-owner's death, his/her interest passes by will to devisee or heirs. No survivorship rights	On partner's death, his/her partnership interest passes to the surviving partner pending liquidation of the partnership. Share of deceased partner then goes to his/her estate	Successor beneficiaries may be named in the trust agreement, eliminating the need for probate	Upon the death of a spouse, his/her interest passes to the surviving spouse, without administration, subject to the same procedures as property held in joint tenancy	On co-owner's death 1/2 belongs to survivor in severalty. 1/2 goes by will to descendant's devisee or by succession to survivor
SUCCESSOR'S STATUS	If passing by will, tenancy in common between devisee and survivor results	Last survivor owns property	Devisee or heirs become tenants in common	Heirs or devisee have rights in partnership interest but not specific property	Defined by the trust agreement but generally the successor trustee continues to administer the trust or will distribute the trust assets to the beneficiaries	Surviving spouse owns property	If passing by will, tenancy in common between devisee and survivor results
CREDITOR'S RIGHTS	Property of community is liable for debts of either spouse, which are made before or after marriage. Whole property may be sold on execution sale to satisfy creditor	Co-owner's interest may be sold on execution sale to satisfy his/her creditor. Joint tenancy is broken, creditor becomes a tenant in common	Co-owner's interest may be sold on execution sale to satisfy his/her creditor. Creditor becomes a tenant in common	Partner's interest may be be sold separately by "Charging Order" by his/her personal creditor, or his/her share of profits may be obtained by a personal creditor. Whole property may be sold on execution sale to satisfy partnership creditor	Creditor may seek an order for execution sale of the beneficial interest or may seek an order that the trust estate be liquidated and the proceeds distributed	Property of community is liable for debts of either which are made before or after marriage; whole property may be sold on execution sale to satisfy creditor	Property of community is liable for debts of either partner, which are made before or after registration as domestic partners. Whole property may be sold on execution sale to satisfy creditor
PRESUMPTION	Strong presumption that property acquired by married spouses is community	Must be expressly stated	Favored in doubtful cases except married spouses	Arise only by virtue or partnership status in property placed in partnership	A trust is expressly created by an executed trust agreement	Must be expressly stated	Must be expressly stated

The comparison above is provided for informational purposes only, and does not constitute legal advice or create an attorney-client relationship. Please consult your attorney for detailed information about the best option for your specific needs. This information is for use in California.

Revised 06/2021

What is Escrow?

Buyer 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. The escrow holder has the responsibility of seeing that the mutually agreed upon, written instructions provided to escrow by the buyer and seller 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 act as the neutral third party acting only on the written, mutual instructions from the principals of the transaction.

How Long is an Escrow?

The length of an escrow is determined by the terms of the purchase agreement/joint escrow 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 suggest an escrow holder.

Why Chicago Title Escrow?

Chicago Title Escrow has experienced and knowledgeable escrow officers waiting to assist you. We can handle your residential and commercial purchases and/or refinance escrows, from the unique to the complex. Chicago Title has offices locally and nationwide to accommodate the most demanding buyers, sellers and borrowers. Call us today to close your next transaction.

Communication Tips for Escrow

- When calling the escrow officer, have the escrow number and buyer/seller's names handy.
- Keep the escrow officer informed on any matters that may affect the transaction.
- Direct your questions to the proper representative, such as:
  - Real Estate Agent: Physical aspects of property, conflicts, and terms of sale.
  - Lender: Loan terms, credit report issues, etc.
  - Escrow Officer: Escrow instructions, documents and forms to be filled out.

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 with the escrow holder. The escrow holder disburses the file, including delivering the monies to the seller, when the escrow holder:

- Forwards the deed to the title company for recording
- Is notified by the title company 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 thus acts in a limited capacity for both principals 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 principals have signed escrow documents. The escrow holder takes instructions based on the terms of the purchase agreement and the lender's requirements.

Escrow Duties

The escrow officer's duties typically include the following:

- Receive signed purchase agreement; prepare escrow instructions
- Receive and deposit buyer's earnest money into an escrow account
- Serve as the neutral agent and liaison/communication link to all parties to the transaction
- Order Preliminary Report to determine status of title to property
- Request beneficiary's statement of pay-off demand related to existing financing
- Comply with lender's requirements as specified in the lender's closing instructions
- Prorate taxes, interest, insurance and rents
- Prepare or secure the transfer deed or other documents necessary to consummate the transaction
- Arrange appointments for buyer/seller to sign documents
- Request and receive purchase funds from the buyer and loan funds from new lender
- Close escrow pursuant to instructions provided by seller, buyer, and lender.
- Arrange for recording of deeds and any other documents as instructed
- Request issuance of the title insurance policies
- Disburse funds as authorized, including charges for title insurance, recording fees, commissions and loan payoffs
- Disposition of all funds held in escrow account
- Prepare final accounting statements for the parties

It all begins with the offer and acceptance skillfully negotiated by the real estate agents representing buyer and seller.

The Buyer(s)

- Tenders a written offer to purchase (or accepts the seller's counter-offer) accompanied by a earnest money 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 preliminary report and any property disclosure or inspection report called for by the purchase and sale agreement. (deposit receipt)
- Approves and signs new loan documents and fulfills any remaining conditions 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 to the escrow instructions.

The Lender (when applicable)

- Accepts the new loan application and other related documents from the buyer(s) and begins the qualification process.
- Orders and reviews the property appraisal, credit report, verification of employment, verification of deposit(s), preliminary report 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.
- Informs buyer(s) of loan approval terms, commitment expiration date and provides a loan estimate of the 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 loan officer.

The Escrow Officer

- Receives an order for escrow and title services.
- Orders the preliminary report from Chicago Title.
- Acts as the impartial "stakeholder" or depository, in a limited fiduciary capacity, for all documents and monies required to complete the transaction per written instructions of the principals.
- Prepares the escrow instructions and required documents in accordance with terms of sale.
- Orders demands on existing deeds of trust and liens or judgments, if any.
- Reviews documents received: preliminary report, 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.

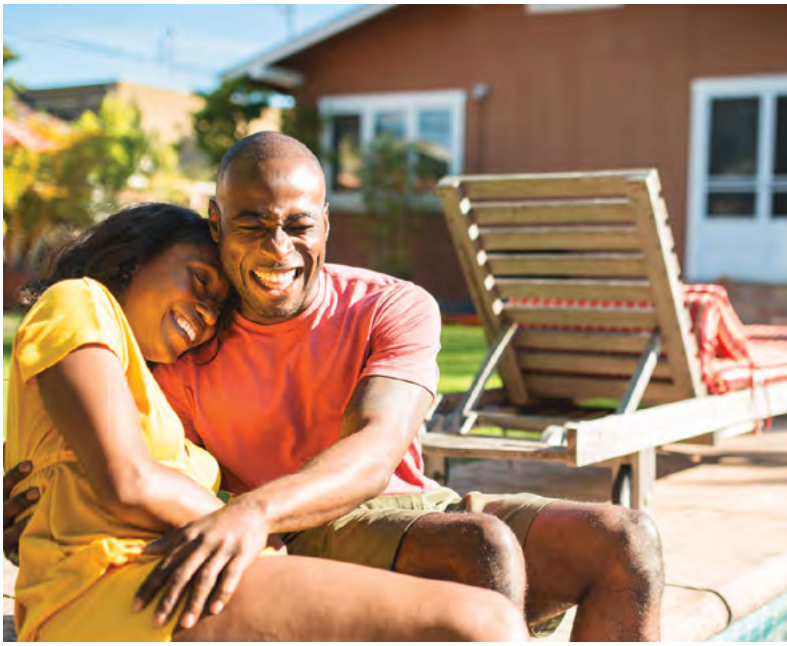
- Presents the documents, statements, loan package(s), estimated closing statement and other related documents to the principals(s) for approval and signature(s), and requests the balance of the buyer's funds.
- Reviews the signed instructions and documents, returns the loan package and requests the lender's 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 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 documents to the principals, agents and/or lenders.

The Seller(s)

- Accepts buyer's offer to purchase and initial good faith deposit to open escrow.
- Submits documents and information to escrow holder, such as: addresses of lien holders, tax receipts, equipment warranties, home warranty contracts, any leases and/or rental agreements.
- Approves and signs the escrow instructions, grant deed and other related document required to complete the transaction.
- Orders inspections, receives clearance, and approves final reports and/or repairs to the property as required by the terms of the purchase and sale agreement (deposit receipt).
- Fulfills any remaining conditions specified in the contract and/or escrow instructions; approves the payoff demands and/or beneficiary's statements.
- Approves any final changes by signing amendments to the escrow instructions or purchase and sale agreement.

Chicago Title

- Receives an order for a title policy.
- Examines the public records affecting the real property and issues a preliminary report. Determines the requirements and documents needed to complete the transaction and advises the escrow officer and/or real estate agents.
- Reviews and approves the signed documents, releases, and the order for title insurance, prior to the closing date.
- When authorized by the escrow officer, records the signed documents with the county recorder's office and prepares to issue the title insurance policies.



The escrow officer will need some basic information in order to open and proceed with the escrow:

- Correct street address, and parcel # if available
- Sales price
- Full names of all parties involved and marital status
- Contact information for all parties
- Existing lender name, loan number, contact information, and approximate unpaid balance.
- HOA (Homeowner's association) information, such as address and dues
- HOA management company information (if any)
- Commission amount and additional conditions

In general, the first item to enter the escrow is the buyer's initial deposit. The escrow file will grow, item by item, until all of the conditions have been met and the escrow is ready to close.

Red Flags in the Escrow/Title Process

A "red flag" is a signal to pay attention! Below are some of the items which may cause delays or other problems within a transaction and must be addressed well before the closing.

- Bankruptcies
- Business trusts
- Liens and judgments, including child or spousal support liens
- Encroachment or off record easements
- Establishing fact of death
- Foreclosures
- Physical inspection results such as encroachment, off record easements
- Probates
- Power of Attorney
- Proper execution of documents
- Recent construction
- Transfers or loans involving corporations or partnerships
- Last minute change in buyers
- Last minute change in type of title insurance coverage

Red Flag Examples

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.

Covenant Conditions & Restrictions (CC&Rs): These are standard. The CC&Rs should be requested by the buyer. The buyer should read these thoroughly, especially if improvements to the property are contemplated.

RED FLAG: Some CC&Rs prohibit certain types of improvements.

EASEMENTS: These are also standard. Most easements in newer subdivisions (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), then the buyer should request the easements be plotted on a map to determine there will not be any interference to contemplated improvements.

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. If the agreement is recorded, 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.

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

RED FLAG: Watch out for old deeds of trusts. If you find a deed of trust listed on the preliminary report that has already been paid, or that looks like it was taken out by a previous owner, call your title officer immediately. They will research the deed of trust, and take the necessary steps. Old deeds of trusts with individual people acting as lender are difficult to get removed, especially if several years have gone by since the loan as been paid off. A bond will sometimes be necessary in order to clear title of an old deed of trust.

ENCROACHMENTS: Sometimes a structure (commonly a fence or driveway) encroaches upon a property. This usually means the proposed insured will have to take the property subject to the encroachment. Contact your title officer when encroachment language appears in the preliminary report.

RED FLAG: The lender may 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) may satisfy the lender. These are determined on a case-by-case basis. Again, contact the title officer.

NOTICE OF VIOLATION: These will sometimes be recorded by the fire department, the health department or the local zoning enforcement division in situations where the property violates a local code.

RED FLAG: The violation may have to be eliminated and the local enforcement agency may have to issue a release before closing. The seller or the seller's representative will have to deal directly with the appropriate agency to resolve these types of issues.

COURT ORDERS/JUDGMENTS: These are not a standard item. The most common type to show on a preliminary report is a support judgment. These are issued by the courts when a child/spousal support is owed by the party named. (See "Statement of Information")

RED FLAG: Support judgments can take up to six weeks to get a demand and release from the creditor (usually the district attorney's office). If you see an order or judgment, 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.

NOTICE OF PENDING ACTION: This is also known as a "lis pendens."

RED FLAG: This means that someone has a lawsuit pending that may affect the title to the property. These are often found in acrimonious divorce situations. A withdrawal of lis pendens will be required before closing.

If you find something on your preliminary report that is not listed here, it is probably a red flag and you should contact your title officer. They will be happy to provide you with copies of recorded documents and advise you as to what is needed in order to remove the item (if necessary). Contact your own legal counsel for additional advice.

What is a Short Sale?

This term refers to a transaction in which the sale price will not generate enough money to cover the payoff of the seller's existing loan and closing costs. Working with a willing lender, a seller may be able to negotiate a payoff amount which is less than the actual amount that would ordinarily be required to pay off the loan. The lender agrees to accept the equity available in the property, and the seller receives no proceeds from the sale of the property.

The Short Sale Escrow

Chicago Title can also handle the specialized "short sale" escrow in which you need an escrow officer experienced in short sale transactions. Many of our escrow officers have received in-depth training in short sales. Your escrow officer will provide confidential, professional service throughout the transaction, assisting you and communicating between all parties. Our experienced staff can foresee, communicate, and work to remove potential obstacles as they arise, to ensure the best possible outcome.

What is a Wire?

A wire, or wire transfer, is an electronic transfer of money across a network from one bank or credit union to another. With a wire, no physical money moves between bank locations, but people or entities are able to "wire" money to another person or entity as long as they have a bank account. Wires are typically used in most real estate transactions because funds are received more quickly (usually the same day), and there are no holds placed on the money once received.

What is Wire Fraud?

Wire fraud typically involves a hacker gaining access to an email account and posing as a trusted party involved in your real estate transaction. This could be someone pretending to be a real estate agent, loan officer, title agent, or even an attorney. Once the hacker has access to a trusted email account, the hacker sends an email from that account or from a similar or spoofed account with information related to your transaction, including wire instructions for your closing funds.

If you react to that email, your funds are sent to an account controlled by the hacker in some manner. Once receipt of the money is confirmed, the hacker immediately withdraws the funds from that account using multiple transfers to accounts normally outside the United States. Once these transfers occur, the likelihood of recovery is small, if at all.

What are Wire Instructions?

Wire instructions are the directions you follow when sending money electronically to another person or entity. In the case of your home purchase, the funds are typically sent to your escrow agent.

Wire instructions typically include:

Bank Name and Address
Bank ABA Number
Bank Account Number
Account Holder's Name Reference Information (in real estate transactions, this is usually a file number)

WHAT CAN I DO TO HELP KEEP MYSELF AND MY PURCHASE WIRESAFE?

There are steps you can take to help protect yourself. Wire fraud is real and home buyers and sellers are the biggest targets. For this reason, we have developed the WireSafe program to help educate customers on wire fraud. Be WireSafe by following these 4 steps every time.

CALL, DON'T EMAIL

Confirm all wiring instructions, including specific banking information, by phone before transferring funds. Use the phone number for your closing agent/escrow officer provided on their website or from a business card. Never rely on phone numbers in the email communications.

BE SUSPICIOUS

It's not common for title companies to change wiring instructions and payment information.

CONFIRM EVERYTHING

Ask your bank to confirm the account number and the name on the account before sending any wire.

VERIFY IMMEDIATELY

Call your closing agent/escrow officer to confirm the funds were received.

WIRE SAFE™

Inquire before you wire. **Be WireSafe.**

In addition to the buyer, seller, lender and real estate agent(s), several other parties may provide their services. 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, bath, lot size, and square footage.
- Compare data of recent sales in the subject's neighborhood, typically within 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 advantage 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 the 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 (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 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 and chimneys, and building exteriors.

How the Seller Should Prepare for a Home Inspection

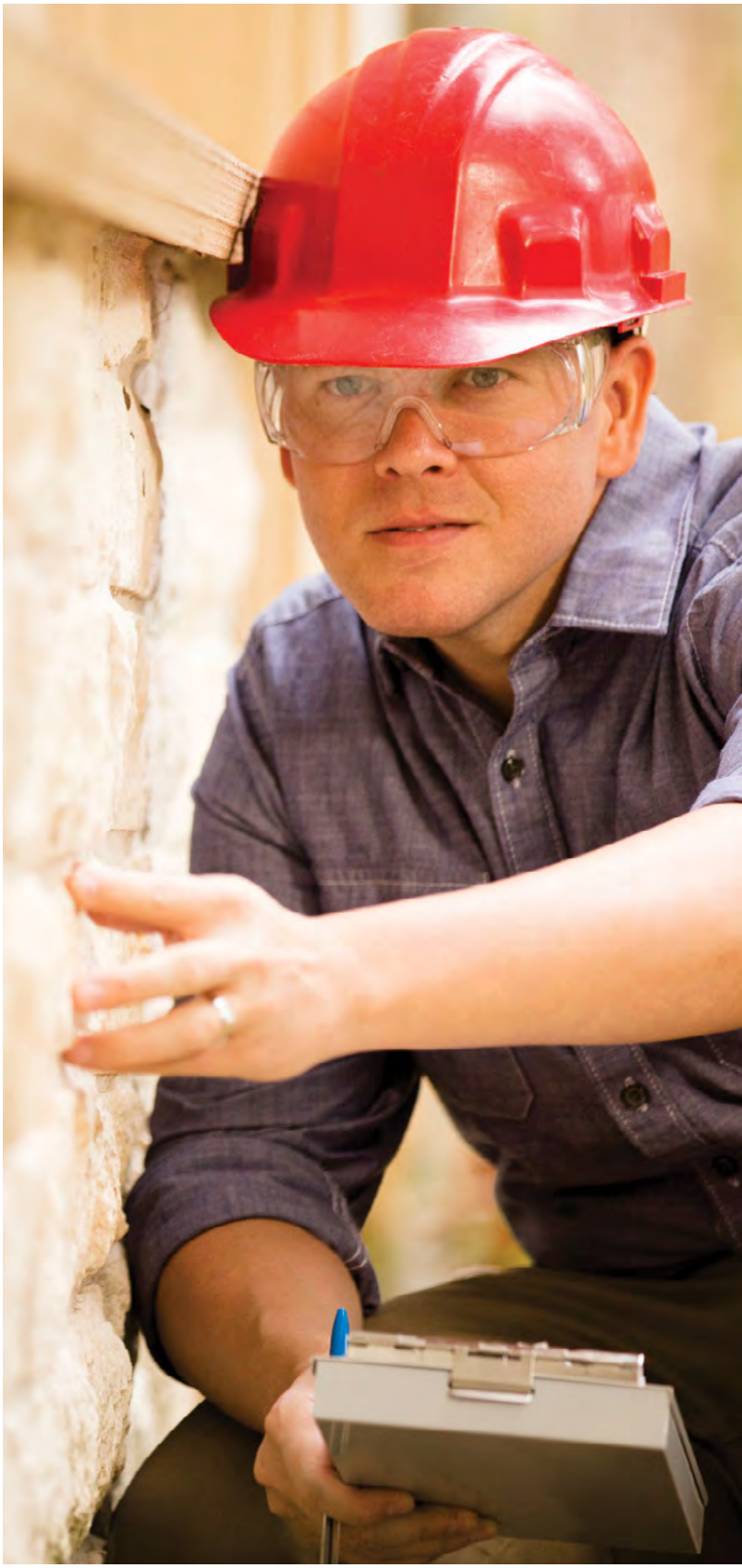
The seller should have the property fully accessible, including elimination of stored objects that may prevent the inspector from accessing key components of the home. Areas of special concern are attics, crawlspaces, electric panels, closets, garages, gates/yard, furnaces and water heaters. All utilities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

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 destroying 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 a state certified termite inspector.



What is a Disclosure Report?

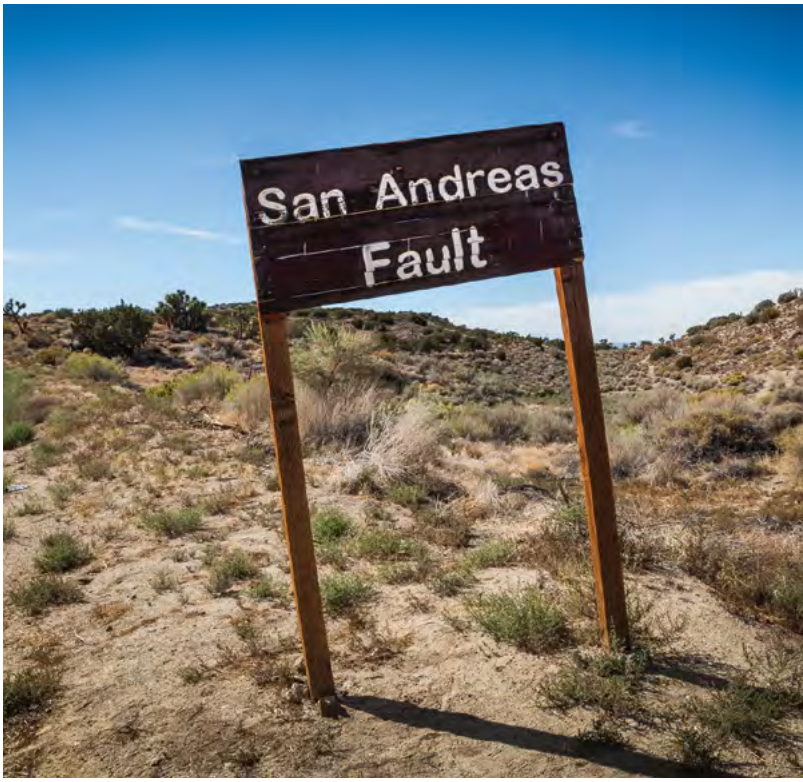
Disclosure reports are designed to assist sellers (and their agents) in disclosing legally required information to a potential purchaser in a real estate transaction in an easy to understand, economical format. Buyers can rely on the information to make a more informed decision regarding the property being purchased.

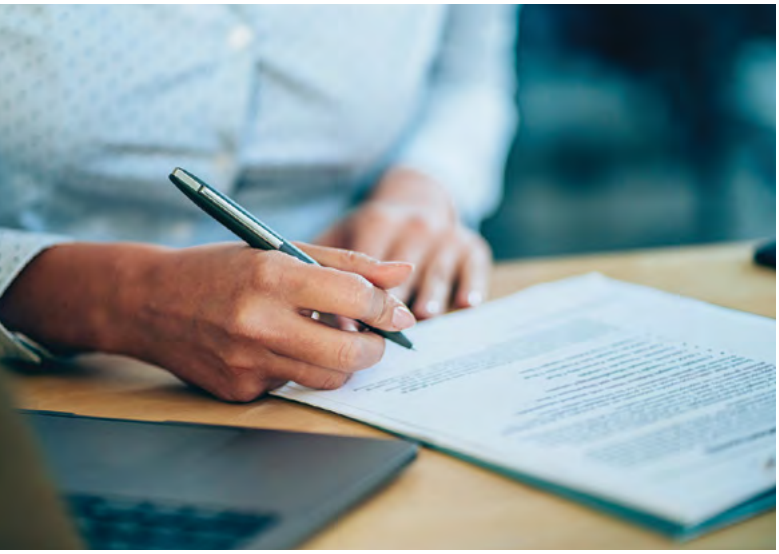
Where to Order a Disclosure Report

FNF's own Disclosure Source is a premier provider for natural hazards, special taxes & assessments and environmental hazard information to safely comply with statutory requirements.

California real estate law gives buyers three days to cancel a transaction whenever material information is disclosed to them. It is in your best interest, as the seller, to get all disclosures in the hands of the potential buyer as soon as possible. We recommend ordering the disclosure report as soon as the property is listed. Buyers will then be able to review and accept the disclosures as part of their offer. Your agent can advise you on these issues.

For more information, please call (800) 880-9123 or visit www.DisclosureSource.com.





Step 1: Application

Your loan process should go smoothly if you complete your loan application properly and provide all necessary documentation to your loan consultant at the time of application.

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 the 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 and appraisal.

Step 5: Loan Approval

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 of the necessary parties have underwritten the loan.

Step 6: 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 7: 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 of the documents have been signed correctly. When this is completed, they will "fund" your loan, meaning that the lender will give the title company the money by check or wire.

Step 8: Recording

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.

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 Appointments?

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.

Bring a valid state ID card, driver's license or passport with you. The notary public will review them to verify your identity.

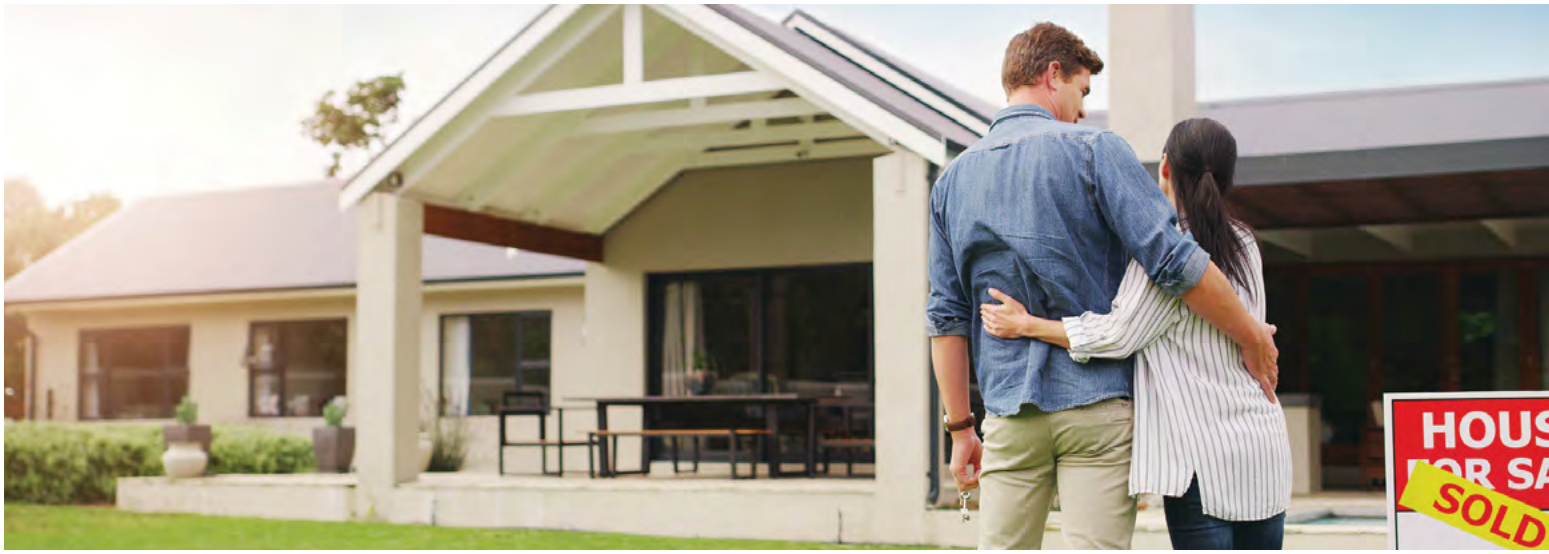
Make sure you're aware of your lender's requirements and that you have satisfied those requirements before you come to the escrow company to sign your papers. Your loan officer or real estate agent can assist you.

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. You can expect this delivery to take place between 4-6 weeks after your transaction goes on record.



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 or 30% down payment that would be required without private mortgage insurance.

Definition of PMI

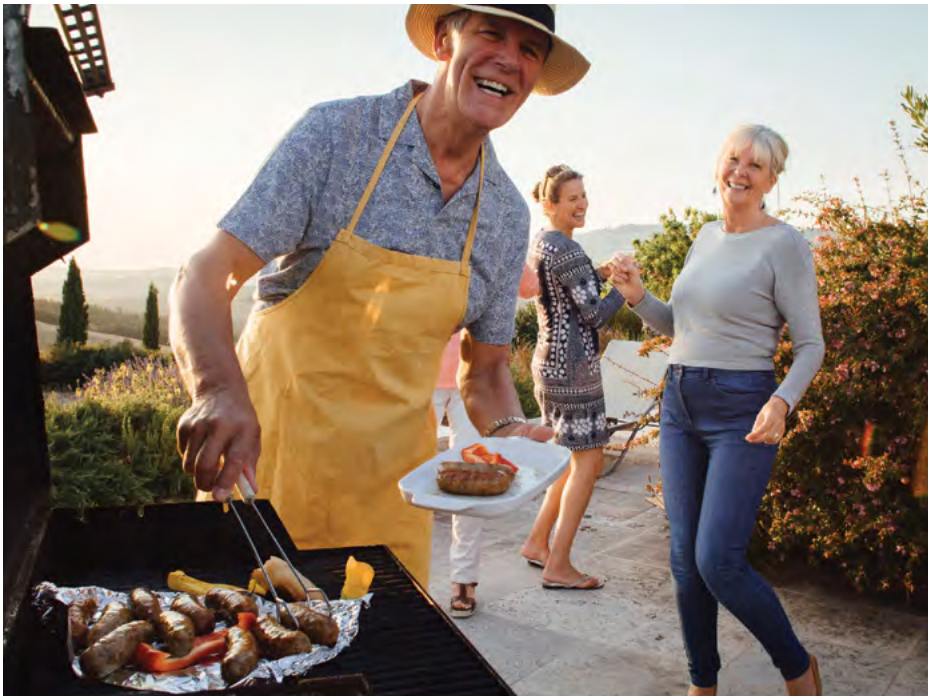
PMI is a type of insurance required by the lender that helps protect lenders against losses due to foreclosure. This protection is provided by private mortgage insurance companies and enables lenders to accept lower down payments than would normally be allowed.

When Do I Need to Carry PMI?

If you make a down payment of less than 20% of the home sales price, your lender may require you to carry PMI.

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.



There are many types of tax issues that should be considered during a real estate transaction. Chicago Title provides the following information as a resource only and always recommends that a seller and buyer consult with their legal and tax professionals for advice.

Topics we will briefly overview which may be a part of, or a result of, your escrow include:

- Capital Gains Tax
- Change of Ownership Filing
- Transfer Tax
- California Withholding
- Property Taxes
- Supplemental Taxes
- Mello Roos

The Internal Revenue Service (IRS) provides free publications that explain the tax aspects of real estate transactions. A few of these include:

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

Federal Requirements

The IRS requires that escrow agents report certain information pertaining to sales 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 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 of properties.

The escrow officer, as the settlement agent, will ask the seller to complete a substitute 1099S 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.

Withholding Requirements

Some states, such as California, require that certain sellers "prepay" their required state capital gain taxes through withholding of a percentage of the sale proceeds. State law requires the buyer to accomplish the withholding, and the buyer 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.

Some 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
- Sales price is $100,000 or less
- Sales that result in zero gain or loss for state tax purposes
- Property owned by certain corporations and partnerships
- Property 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 your clients or contact the California Franchise Tax Board.

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 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 document is recorded along with documents evidencing a change in ownership. 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 of fines may be assessed from the governing body for failure to file the document 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.

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 or county, is charged per $500 or $1,000 of the sales price.

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.

Property Taxes (See tax calendar example on next page)

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. The ultimate property owner continues to make payments 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.

JANUARY 1	Assessment date (Lien date)	Taxes become a lien at 12:01 am. Not yet due and payable for the fiscal year starting July 1. Thereafter, title evidence must show taxes as a lien for the coming fiscal tax year.
FEBRUARY 15	Exemption claim filing deadline	Last day to file a timely exemption claim for veterans, disabled veterans, and homeowners. To be eligible for applicable exemptions, you must own and occupy property by March 1.
JULY 1	Current fiscal tax year begins	
AUGUST 31		Last day to pay unsecured taxes without penalty.
NOVEMBER 1	1st installment due	First installment – July 1 to December 31
DECEMBER 1	Exemption filing deadline	Last day to file for 80% veterans or homeowner's exemption.
DECEMBER 10	1st installment becomes delinquent at 5 pm	10% penalty added to taxes due. If December 10 falls on a weekend or holiday, taxes are not delinquent until 5 pm the next business day.
JANUARY 1	Assessment date (Lien date)	
FEBRUARY 1	2nd installment due	Second installment – January 1 to June 30
APRIL 10	2nd installment becomes delinquent at 5 pm	10% penalty plus $10 administrative charge attaches.* If April 10 falls on a weekend or holiday, taxes are not delinquent until 5 pm the next business day.
JUNE 30	Property tax may become defaulted	If you fail to pay either or both installments by 5 pm, property tax becomes defaulted and additional costs and penalties accrue. If June 30 falls on a weekend or holiday, taxes must be paid by the preceding business day. *Property may be sold at public auction after 5 years of delinquency.*

How Property Taxes Are Determined

Property taxes are governed by California State law and collected by the county. The county assessor must first assess the value of your property to determine the amount of property tax. Generally, the assessed value is the cash or market value at the time of purchase. This value increases not more than 2% per year until the property is sold or new construction completed. The auditor-controller applies the appropriate tax rates, which include the general tax levy, locally voted special taxes, and city or district direct assessments. The tax collector prepares the property tax bills based on the auditor-controller calculations, distributes the bills, and collects the taxes.

Can You Disagree With the Amount?

You may apply to the assessor to see if that office will change the valuation. Additionally, appeals boards have been established for the purpose of resolving valuation problems. Appeals on regular assessments may be filed between July 2 and September 15. Appeals on corrected assessments, escaped assignments (assessments that did not take place when they should have), or supplemental assessment must be filed no later than 60 days from the mailing date of the corrected, escaped, or supplemental tax bill.

File an Appeal But Remember to Pay the Tax

If you choose to appeal, still pay your tax installment in full by the appropriate deadlines or you may incur penalties. If your appeal is granted, a refund will be issued to you.

Did You Recently Purchase Property?

Although escrow prorates taxes and gives appropriate credit between buyer and seller, the actual taxes may not have been paid and you are responsible for any unpaid taxes at the close of escrow.

Read your escrow papers and/or title report to determine if any portion of the annual taxes were paid by the previous owner before the close of escrow.

If any taxes remain unpaid, call the tax collector and request a bill. When you call, give the assessor's Identification Number (consisting of map book, page, and parcel number) from previous tax bill; the property address; or the legal description.

State law stipulates that failure to receive a bill does not permit the tax collector to excuse penalties on late payments.

Impound Accounts

If your taxes are paid through an impound account (included with your mortgage payment), your lender will receive your annual tax bill, and you will receive an informational copy.

Important Note

In addition to annual taxes, you will probably be responsible for paying supplemental property taxes. The supplemental property tax bill is sent to the owner only. Consider sending a copy of the supplemental bill to the lender, especially in the event taxes are paid through an impound account.

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.*

Seller's Typical Costs

- **Real Estate Commission**
- **Disclosure Reports** – Natural hazard report
- **Home Warranty, Existing Encumbrances**
- **Property Inspections, Pest Inspection Correction** – Termite report
- **Transfer Tax** – City/County conveyance tax

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

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**

*This list is an example only of typical closing costs

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.

Amendments: A change to any part of an agreement without changing the general essence of the original.

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 rate or advertised rate on the mortgage, because it takes into account point and other credit cost. 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.

Beneficiary: The recipient of benefits most often from a deed of trust. This is usually the lender.

Buyer's Agent: The agent or broker serving as a representative of the buyer in order to identify a property and negotiate on their behalf for the purchase.

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&Rs): 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.

Comparable Sales: Also referred to as "comps". Sales of other properties that have characteristics similar to the subject property. Generally used for the preparation of an appraisal.

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

Conventional Mortgage: A mortgage securing a 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.

Earnest Money Deposit (EMD): 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 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 of 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.

Legal Description: The description of land based on government surveys that identifies exact boundaries of an entire parcel of land and recognized by law.

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

Listing Agent: The agent or broker in agreement with the property owner to sell the subject property and list the property in the Multiple Listing Service.

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.

Multiple Listing Service: The database of properties listed for sale by Realtors® who are members of their local Association of Realtors®.

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.

Points (also called "commission or discount" points"): Each point is equal to 1% of the loan amount (e.g., two points on a $100,000 mortgage would cost $2000).

Power of Attorney: A written instrument in which a principal grants authority to a specified agent.

Principal, Interest, Taxes and Insurance (PITI): Also called monthly housing expense. This is the combined Principal, Interest, Taxes and Insurance for a total payment.

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.

Purchase Agreement: The contract between the Buyer and Seller for the purchase of a designated property.

Quitclaim Deed: A deed that serves as a release with the purpose of transferring any title, interest or claim held by the grantor. The Quitclaim Deed does not contain any warranty of valid interest or title by the grantor.

Real Estate Agent: An individual licensed by the state to represent parties in the transfer of property.

Realtor®: A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors®. Every Realtor is a Real Estate Agent but not every Real Estate Agent necessarily maintains the designation of Realtor®.

Recording: The filing of documents for real property with the County Recorder's office that becomes public record.

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.

Trust Account: An account separate and apart and physically segregated from the broker's own, in which the broker is required by law to deposit all funds collected for clients.

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 a 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 on the title.

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