



## CLOSING COST EXPLAINED

It's the big day. The day you go to the title or escrow company, sign your name on the dotted line, hand over a check and prepare to take ownership of your new home. It's also the day that you and the seller will pay "closing" or settlement costs, an accumulation of separate charges paid to different entities for the professional services associated with the buying and selling of real property.

It's too often a day filled with uncertainty and stress. To help you better understand this confusing subject, Here are answers to some of the questions most commonly asked about title, closing and closing costs.

### **What services will I be paying for?**

You will usually be paying for such things as real estate commissions, appraisal fees, loan fees, escrow charges, advance payments such as property taxes and homeowner's insurance, title insurance premiums, pest inspections and the like.

### **How much should I expect to pay in closing costs?**

The amount you pay for closing costs will vary; however, when buying your home and obtaining a new loan, an estimate of your closing costs will be provided to you pursuant to the Real Estate Settlement Procedures Act after you submit your loan application. This disclosure provides you with a good faith estimate of what your closing costs will be in the real estate process. An itemized list of charges will be prepared when you close your transaction and take title to your new property.

### **Will I be allowed to write a personal check to cover my closing costs?**

Your closing funds should be in the form of a cashier's check, issued by a California institution, made payable to the title company or escrow office in the amount requested. A personal check may delay the closing or may be unacceptable

to the title or escrow company. An out-of-state check could also cause a delay in your closing due to possible delays in clearing the check.

### **Is it a law in California that I must purchase title insurance when I buy or refinance a home?**

No. However, virtually all lenders require title insurance for the face amount of their deed of trust, whether purchase or refinance. Prudent owners also value the protection afforded by the payment of the one time title insurance premium.

### **How much can I expect to pay in title insurance?**

This point is often misunderstood. Although the title company or escrow office usually serves as a meeting ground for closing the sale, only a small percentage of total closing fees are actually for title insurance protection. Your title insurance premium may actually amount to less than one percent of the purchase price of your home, and less than ten percent of your total closing costs. The title policy is good for as long as you and your heirs own the property with the payment of only one premium.

### **Who will pay for title insurance charges, the buyer or seller?**

Surprisingly, "who pays" is not uniform from county to county in California. In some counties the buyer will pay while in others the seller will pay. In other counties the seller will pay for the owner's title policy and the buyer will pay for the lender's policy. But in every case, the question of who pays closing costs is a matter of agreement between the buyer and seller. Usually this agreement is based on the customary practice in your county.

### **Why are separate owner's and lender's title insurance policies issued?**

Both you and your lender will want the security offered by title insurance. Your home is an important purchase, and you will want to

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be certain your home is yours, all yours. Title insurance companies insure your rights and interests in order to protect you against claims.

## What does my title dollar pay for?

Title insurers, unlike property or casualty insurance companies, operate under the theory of "risk elimination." Risk elimination can only be accomplished after an intensive period of risk identification.

Title companies spend a high percentage of their operating revenue each year collecting, storing, maintaining and analyzing official records for information that affects title to real property. The issuance of a title insurance policy is highly labor-intensive. It is based upon the maintenance of a title "plant" or library of title records, in many cases dating back over a hundred years. Each day, recorded documents affecting real property are posted to these plants so that when a title search on a particular parcel is requested, the information is already organized for rapid and accurate retrieval.

Trained title experts are able, with the aid of their extensive title plants, to identify the rights others may have in your property, such as recorded liens, legal actions, disputed interests, rights of way or other encumbrances on your title. Before closing your transaction, you can seek to "clear" those encumbrances which you do not wish to assume.

The goal of title companies is to conduct such a thorough search and evaluation of public records that no claims will ever arise. Of course, this is impossible--we live in an imperfect world, where human error and changing legal interpretations make 100 percent risk elimination impossible. When claims do arise, title insurance companies have professional claims personnel to make sure that your property rights are protected pursuant to the terms of your policy.

To conclude, when you pay for your title insurance policy, you are paying for a team of professionals who have worked together to deliver you a title insurance policy which represents protection for your ownership of real property.

**Here are some of the common fees included in a typical settlement, which will comprise your closing costs:-**

## Title & Escrow Related Closing Costs:

- Closing fee for the settlement agent
- Document preparation
- Notary fees
- Escrow Fee (based on Purchase Price)
- Courier Fees
- Loan-Tie-In Fee
- Electronic Document Delivery Fee
- Owner's Title Insurance Policy Coverage (based on Purchase Price)
- Lender's Title Insurance Policy Coverage (based on Loan Amount)

## Loan Related Closing Costs:

- Loan Origination Fee
- Loan Discount Points (optional)
- Appraisal Fee
- Credit Report Fee
- Interest Payment
- Underwriting Fee

## Government Related Closing Costs:

- Fee to record the deed, mortgage and any releases
- County and possible city transfer taxes (see reference chart attached)

## Escrow Impound Account:

- Homeowner's Insurance premium for the year
- Mortgage Insurance (if any) - the number of months varies
- Property Taxes - usually 2 months in advance

## Additional Settlement Fees may include:

HOA Documents, Termite Inspection, Home Inspection, Land surveys, Flood certification, Lead-paint Inspection, Roof Inspection, etc. please check with your real estate agent in regards to these fees.

Always ask your Escrow Officer if you have any questions on any of the fees disclosed.

