



# Homebuyer's Guide





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## North American Title Company *The Partner You Can Trust*

Making many parts mesh to run *Like Clockwork®* is the job of every real estate professional, and it has been a North American Title Company tradition for more than 50 years.

That history of performance is part of your assurance that North American Title will deliver what you need on time, every time.

North American Title's nationwide network of offices gives us insight into local conditions and situations, and provides the base for personalized service that is responsive, capable, and flexible. Our size enables us to put customized systems and personnel to work on your behalf; our local presence lets you work with someone who knows you and the challenges of your area.

Our premier status in the industry enables us to attract associates whose capabilities and commitment help us set the standard against which all others are measured. As we continue our rapid growth throughout the country, we invest the time and effort needed to attract and retain the human resources that are the foundation of our success. Our associates have the company support, the ability, the knowledge, and the attitude that results in better service for you. We hire only the best associates, because we are uncompromising in our intent to deliver only the best service. Our people add value to every North American Title transaction. Our commitment to you is a commitment from every associate at North American Title.

We combine a carefully chosen team, superior resources, and an unyielding commitment to quality. The result for you - *Like Clockwork®*.

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## Title Insurance

In California, most real estate transactions are closed with the issuance of a title insurance policy in favor of the owner, the lender or both. Many homebuyers erroneously assume that when purchasing a piece of property, possession of the deed to the property is all they need to prove ownership. Not so, because hidden hazards may attach to real estate. Forgeries, faulty surveys, hidden liens, and false representation of ownership of a married person as being single are just a few examples of factors which may cloud title to real property ownership. A property owner's greatest protection is a policy of title insurance.

### What is Title Insurance?

Title insurance insures property owners that they are acquiring marketable title. Unlike casualty insurance policies which insure against future events, title insurance is designed to eliminate risk or loss caused by defects in title from past events.

A title insurance policy is a contract of indemnity which guarantees that the title is as reported. If it is not, and the owner is damaged, the title policy covers the insured for his/her loss up to the face amount of the policy.

### The Title Search

Issuing a title policy is an extensive and exacting process. Title companies work to eliminate risks by performing a painstaking search of the public records or the title company's own "plant". The title plant is where public records, laws and court decisions pertaining to property and the parties to the escrow are maintained. There, current recorded ownership, any recorded liens or encumbrances, or other matters of record which could affect title to the property are determined. Once a title search is complete, the title company issues a preliminary report detailing the current status of title.



*From property listing to customer appointments, you live  
by the clock. Your title insurance company should too.*

## The Preliminary Report

The preliminary report contains vital information which may affect the willingness and ability of the parties to close escrow; ownership of the subject property, the manner in which the current owners hold title, matters of record which specifically affect the subject property or its owners, and a legal description of the property and informational plat map.

The preliminary report indicates the type of title insurance offered by the title company and exclusions and exceptions from coverage. These include recorded deeds of trust, easements, agreements, and covenants, conditions and restrictions (CC&R's).

## What to look for

Your Real Estate Agent should review the preliminary report as soon as it arrives, with particular attention to certain areas:

- ▶ Verify the ownership vesting. The names on the report should match the names on the purchase contract. Sometimes the name of an unexpected owner will appear (i.e. a previous spouse or relative who died), and corrective documents may be required.
- ▶ Verify the property address. The plat map and legal description should match the address. An owner could own two properties adjacent to or across the street from each other, causing confusion in identifying the correct property.
- ▶ Read the informational notes for pertinent items about the property, i.e., transfer taxes, monument fees, homeowners' association fees, etc.
- ▶ Carefully review the exceptions. Common exceptions include current taxes, bonds, deeds of trust, Mello-Roos assessment district items, CC&R's and easements. Be sure the CC&R's or existing easements don't interfere with the buyer's future plans. For example, an easement across the backyard could have a profound effect on the buyer's ability to add a swimming pool later.
- ▶ ALWAYS look for surprises. If you can't locate an easement, if an unexpected deed of trust shows up, if you see an item you weren't aware of before; call the escrow officer or title company to discuss the matter. The title company should be a problem solver, and top notch escrow officers and title companies go out of their way to resolve quickly the majority of "red flag" areas. However, the responsibility for early detection and resolution of problems falls on the entire escrow team: the real estate agents, escrow and title companies and sometimes the buyers and sellers as well.





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## What's covered?

Not all risks can be eliminated by a title search, since certain "hidden defects" like forgeries, identity of persons, incapacity, incompetence and failure to comply with the law, cannot be disclosed by an examination of the public records. Where the preliminary report is an offer to insure under certain circumstances, the title policy is a contract, providing coverage against such "hidden defects."

Some of the many title risks covered in the California Land Title Association (CLTA) Standard Coverage Policy include lack of a right of access to and from the land and a number of recorded defects:

- A forged signature on a deed.
- Impersonation of the real owner.
- Mistakes in interpretation of wills or other legal documents.
- Deeds delivered without the consent of the grantor.
- Undisclosed or missing heirs.
- Deeds and mortgages signed by persons of unsound mind, by minors, or by persons supposedly single but actually married.
- Recording mistakes and missed recorded documents.
- Falsification of records.
- Errors in copying or indexing.

In addition to indemnifying the insured against losses which result from a covered claim, the policy also provides for legal fees and defense against future claims against the property.

Extended Owner's and Lender's policies provide broader coverage and are available through the American Land Title Association (ALTA). Coverage is extended to certain matters that are off-record but which are generally discoverable by an inspection of the property or by questioning the parties in possession, such as:

- Unrecorded liens and encumbrances.
- Unrecorded easements.
- Unrecorded rights of parties in possession.
- Encroachments, discrepancies or conflicts in the boundary lines.

ALTA Policies are available for lenders or owners, and a "Plain Language" ALTA Residential policy is also available for residential property of one to four units.

Realtors, Buyers and Sellers should not assume that all title policies and title companies are the same. It is important to ask questions of your title company to determine the type and cost of coverage best suited to you.

# Common Forms of Ownership

## Ownership of Real Property

Real property may be owned by a sole owner, or it may be owned jointly by two or more persons. A person who is the sole owner of a parcel of real property is said to be the owner thereof in severalty. Concurrent ownership or co-ownership, on the other hand, means simultaneous ownership of a given piece of property by two or more persons.

**The several types of concurrent ownership are:**

- tenancy in common
- joint tenancy
- community property
- tenancy in partnership

## Tenancy in Common

A tenancy in common is characterized by only one unity, that of possession. It is created whenever an instrument conveys an interest in real property to two or more persons, and does not specify that the interest is acquired by them in joint tenancy or in partnership or as community property. Interest may be any fraction of the whole; thus one party may own one-tenth, another three-tenths, and a third party may own the remaining three-fifths. There is no right of survivorship; each tenant owns an interest which vests in his heirs or devisees upon his death.

## Joint Tenancy

Joint tenancy exists when two or more persons are joint and equal owners of the same undivided interest in specified property. The main characteristic of joint tenancy is the right of survivorship. When a joint tenant dies, his interest in the property is terminated, and the estate continues in the survivor or survivors.

The usual method of creation of a joint tenancy is by a deed describing the grantee as follows: "to A and B, as joint tenants." The words "with right of survivorship" are often added, but are not a requisite, since this right is an incident of a joint tenancy, whether expressly recited or not.

Problems have frequently arisen regarding the true character of the ownership of property by husband and wife as joint tenants. Frequently such property, despite the status of joint tenancy ownership, has been treated as community property for purposes of succession, transfer, disposition in divorce, or seizure by creditors. It may be shown that property taken in joint tenancy was thereafter converted into community property by either an oral or written agreement.



*continued...*





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The contention that joint tenancy property is in fact community property is often raised in divorce cases. The court does not have the power to make an award of separate property, but if it is established that joint tenancy property is in fact community property, the court may award such property to the innocent spouse.

Upon the death of one joint tenant, the title automatically passes to the survivor, title insurance companies will require some formal procedure before recognizing the new owner. Two methods are followed:

- filing an Affidavit of Death of Joint Tenant; or
- obtaining a court decree of death of joint tenant.

## Community Property

Community property is a creation of the Civil Law of Rome and came to California via Mexico. When the Treaty of Guadalupe Hidalgo provided that property rights of Mexican subjects would be kept inviolate, early Californians felt compelled to continue the community property system and it became incorporated into the California constitution. In general, community property represents the earnings and accumulations of the marriage.

Persons who are not married to each other cannot hold community property together.

**All property of married persons which is not their community property is the separate property of one or the other. Separate property consists of:**

- property owned before marriage
- proceeds of separate property, such as dividends, rents, profits or property received in exchange for separate property
- gifts and inheritances received after marriage
- property agreed between the spouses to be separate property
- earnings of the wife when she is living separate and apart from the husband
- earnings of the husband when he is living separate and apart from the wife

All deeds conveying community property must be signed by the wife as well as the husband. This is true, even though the property stands in the name of the husband or the wife.

## Community Property with Right of Survivorship

A form of vesting title to property owned together by husband and wife or by domestic partners. This form of holding title shares many of the characteristics of Community Property but adds the benefit of the right of survivorship similar to title held in joint tenancy. There may be tax benefits for holding title in this manner. The interest must be created on or after July 1, 2001.

On the death of an owner, the decedent's interest ends and the survivor owns the property.

**For example:** Bruce Buyer and George Buyer, registered domestic partners, as community property with right of survivorship.

# Common Forms of Ownership Chart

## How To Take Title to Real Property

	TENANCY IN COMMON	JOINT TENANCY	COMMUNITY PROPERTY	COMMUNITY PROPERTY WITH RIGHT OF SURVIVORSHIP
PARTIES	Any number of persons (can be husband and wife)	Any number of persons (can be husband and wife)	Only husband and wife or domestic partners	Only husband and wife and only when interest is created on or after July 1, 2001 or domestic partners created on or after January 1, 2005
DIVISION	Ownership can be divided into any number of interests, equal or unequal.	Ownership interests cannot be divided	Ownership interests are equal	Ownership interests are equal
TITLE	Each co-owner has a separate legal title to his undivided interest.	There is only one title to the whole property.	Title in the "Community" (Similar to title being in a partnership)	Title in the "Community" (Similar to title being in a partnership)
POSSESSION	Equal right of possession	Equal right of possession	Equal right of possession	Equal right of possession
CONVEYANCE	Each co-owner's interest may be conveyed separately by its owner.	Conveyance by one co-owner without the others breaks the joint tenancy.	Both co-owners must join in conveyance of real property. Separate interests cannot be conveyed.	Both co-owners must join in conveyance of real property. Separate interests cannot be conveyed.
PURCHASER'S STATUS	Purchaser becomes a tenant in common with the other co-owners.	Purchaser becomes a tenant in common with the other co-owners.	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, his interest passes by will to his devisees or heirs. No survivorship right.	On co-owner's death, his interest ends and cannot be willed. Survivor owns the property by survivorship.	On co-owner's death, 1/2 goes to survivor in severalty. Up to 1/2 goes by will or succession to others. (Consult attorney with specific questions)	On co-owner's death, decedent's interest ends and cannot be willed. Survivor owns the property by survivorship.
SUCCESSOR'S STATUS	Devisees or heirs become tenants in common.	Last survivor owns property in severalty.	If passing by will, tenancy in common between devisee and survivor results.	Last survivor owns property in severalty.
CREDITOR'S RIGHTS	Co-owner's interest may be sold on execution sale to satisfy his creditor. Creditor becomes a tenant in common.	Co-owner's interest may be sold on execution sale to satisfy creditor. Joint tenancy is broken, creditor becomes tenant in common.	Co-owner's interest cannot be seized and sold separately. The whole property may be sold to satisfy debts of either husband or wife depending on the debt. (Consult attorney with specific questions).	Co-owner's interest cannot be seized and sold separately. The whole property may be sold to satisfy debts of either husband or wife depending on the debt. (Consult attorney with specific questions).
PRESUMPTION	Favored in doubtful cases except husband and wife. (See community property).	Must be expressly stated and properly formed. Not favored.	Strong presumption that property acquired by husband and wife is community.	Strong presumption that property acquired by husband and wife is community.



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## Statement 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". Statements of Information provide 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 records under similar names. To help you better understand this sensitive subject, the 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 and 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?

Everyday documents affecting real property – liens, court decrees, bankruptcies, etc. – 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.

## What types of information are requested in a Statement of Information?

The information requested is personal in nature, but not unnecessarily so. The information requested is essential to avoid delays in closing the transaction.

You will be asked to provide full name, social security number, year of birth, birthplace, and information on citizen-ship. If you are married, you will be asked the date and place of your marriage. Residence and employment information will be requested, as will information regarding previous marriages if you are divorced.

Will the information I supply be kept confidential? The information you supply is completely confidential and only for the title company to use in completing the search of records necessary before a policy of title insurance can be issued.

## What happens if a buyer, seller, or borrower fails to provide the requested Statement of Information?

At best, failure to provide the requested Statement of Information will hinder the search and examination capabilities of the title company, causing the delay in the production of your title policy.

At worst, failure to provide the information requested could prohibit the close of your escrow. Without a Statement of Information, it would be necessary for the title company to list as exceptions from coverage judgments, liens or other matters which may affect the property to be insured. Such exceptions would be unacceptable to most lenders, whose interest must also be insured.

## In Conclusion

Title companies make every attempt in issuing a policy of title insurance to identify known risks affecting your property and to efficiently and correctly transfer title so as to protect your interests as a homebuyer. By properly completing a Statement of Information, you allow the title company to provide the service you need with the assurance of confidentiality.





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## What is Escrow?

Escrow is the depositing of funds and documents by the parties with a neutral third party for delivery upon completion of the terms of the escrow instruction. The word escrow is derived from the French word 'escroue' meaning a scroll or roll of writing.

When the parties deliver documents and money to the Escrow Officer to be held for further delivery until certain conditions have been met, we say the documents are held "in escrow". We may also say the parties have "opened an escrow". Each of the principals of the escrow (seller, buyer, lender) will give to the escrow holder written instructions setting out the conditions under which further delivery is to be made. These instructions are usually typed by the Escrow Officer or the Escrow Assistant from oral information supplied by the principals or from a contract signed before they arrived at the escrow office.

### The Purpose of an Escrow

The common use of an escrow is to enable the parties in a real estate transaction to deal with each other with less risk, since the escrow holder acts as:

- ▶ Custodian for funds and documents
- ▶ A clearing house for payment of all demands
- ▶ An agency to perform the clerical details for the settlement of the accounts between the parties

### Typical Escrow Transaction

Typically, an escrow begins with the ESCROW OFFICER "opening the order for title work". Based on the information provided, North American Title Company prepares a title report. There are two basic types of title reports: a preliminary title report and a commitment. A preliminary title report provides the customer with an analysis of the present status of the property as revealed by the public records filed or recorded in the county in which the property is located. A commitment (issued in some jurisdictions) additionally specifies the requirements which must be met in order to issue the requested insurance.

Upon receipt of the title report, an analysis is made to determine the necessary action and documents required to complete the transaction: demands for satisfaction of liens not acceptable to buyer and/or lender; documents for recording; instructions and requirements of the new lender. In most areas, buyers and sellers instructions are prepared for signature from the information gathered. When all the title and financial requirements are met, and instructions from all parties can be fully complied with, the escrow is said to be "in perfection" and can close. Then the financial settlement takes place, the documents are recorded and the title insurance policies are issued.

# The Good Faith Estimate (GFE)

When you apply for a mortgage, the government requires your lender to give you a “Good Faith Estimate” (GFE) within three days of your application. This document sets out all the costs associated with the mortgage, and most experts recommend against committing to a loan before seeing it.

A GFE is also helpful because it allows you to compare the real costs of competing mortgage offers. However, it can be tricky to understand – especially if different lenders don’t list the same costs in the same way, or if the costs are incomplete or inaccurate. So, it pays to take a close look at your Good Faith Estimate when it arrives. Here are some of the things to look out for.

## Interest Rate and Points

A GFE shows your interest rate and any discount points you can pay at closing. Make sure you understand that paying discount points will buy you a lower interest rate and lower payments, but it will take many months before the savings make up for the fee.

## Lender’s Fees

The long list includes the appraisal fee, credit report fee, application fee, mortgage broker’s fee, and interest rate lock-in fee, if any. Watch for big differences between lenders – no fees should vary widely. Also, watch for extra fees applied only by certain lenders, or missing fees that may not have been included but are sure to appear later. Ask a lender about any fee that seems out of line.

## Title and Transfer Charges

The closing or escrow fee, title search and title insurance fees, and government taxes are pretty much standard. However, you might get a better rate (called a reissue rate) on the title insurance if it has been less than five years since the previous owner took out a policy on the property. And you don’t have to accept the lender’s title insurance company or attorney; you may try to find one who offers a lower price. Some states set the price of title insurance.

## Prepaid Interest

One item paid in advance is the interest on the loan for the period before the first payment date. Putting your closing date close to the end of the month can minimize this charge.

## Insurance

A GFE may specify a figure for home or hazard insurance but it may be less expensive to arrange your own. Also, if you are being charged for mortgage insurance or flood insurance make sure you know why.





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## Fee May Rise

It's important to remember that a GFE is only an estimate. The figures quoted could rise by 10 percent to 15 percent, or even more, by closing day. This may happen because a lender has simply applied the standard rates of the service companies it deals with, and then had to adjust them later. But some lenders could also be understating their fees. Unfortunately, the government doesn't impose any penalties on lenders who issue an inaccurate GFE.

## Fee Lock-In

You can protect yourself from nasty surprises by asking your lender to quote you the exact final costs, or to "lock in" its fees. Or you can look for one of the "bundled" fee packages now offered by some lenders – these might offer a cheaper overall price.

## Truth in Lending Statement

Along with the Good Faith Estimate, a lender will also give you a Truth in Lending (TIL) disclosure form. This gives you the Annual Percentage Rate (APR) on your mortgage, which takes into account discount points, mortgage insurance, and other fees on top of the basic interest rate.

The Truth in Lending form also lists the total finance fees, the amount financed, the total amount you'll pay over the life of the loan, the total number and amount of your payments, and when they're due each month. And it contains other important details, such as whether the mortgage is assumable if you sell the home, and whether there is a penalty for prepaying the mortgage; if the form says you "may" have to pay a penalty, it means you probably will.

Most important, understand that the figures in the TIL form can also change. If your interest rate or any of the fees go up by closing day, so will your APR and the overall cost to your loan.



***The professional at North American Title specialize in closing all your real estate deals. Our title insurance comes with an assurance of expertise and personal attention.***

# The following items represent a typical list of what an escrow holder does and does not do:

## The Escrow Holder:

- Serves as the neutral "stake holder" and the communications link to all parties in the transaction
- Prepares escrow instructions
- Requests a preliminary title search to determine the present condition of title to the property
- Requests a beneficiary's statement if debt or obligation is to be taken over by the buyer
- Complies with lender's requirements, specified in the escrow agreement
- Receives purchase funds from the buyer
- Prepares or secures the deed or other documents related to escrow
- Prorates taxes, interest, insurance, and rents according to the instructions
- Secures releases of all contingencies or other conditions as imposed on any particular escrow
- Records deeds and any other documents as instructed
- Requests issuance of the title insurance policy
- closes escrow when all the instructions of buyer and seller have been carried out
- disburses funds as authorized by instructions, including charges for title insurance, recording fees, real estate commissions, and loan payoffs
- prepares final statements for the parties accounting for the disposition of all funds deposited in escrow. (These are useful in the preparation of tax returns)

## The Escrow Holder Does Not:

- Offer legal advice
- Negotiate the transaction
- Offer investment advice

North American Title Company will be happy to provide additional information regarding our title and escrow services. Please contact your account manager today to learn more.

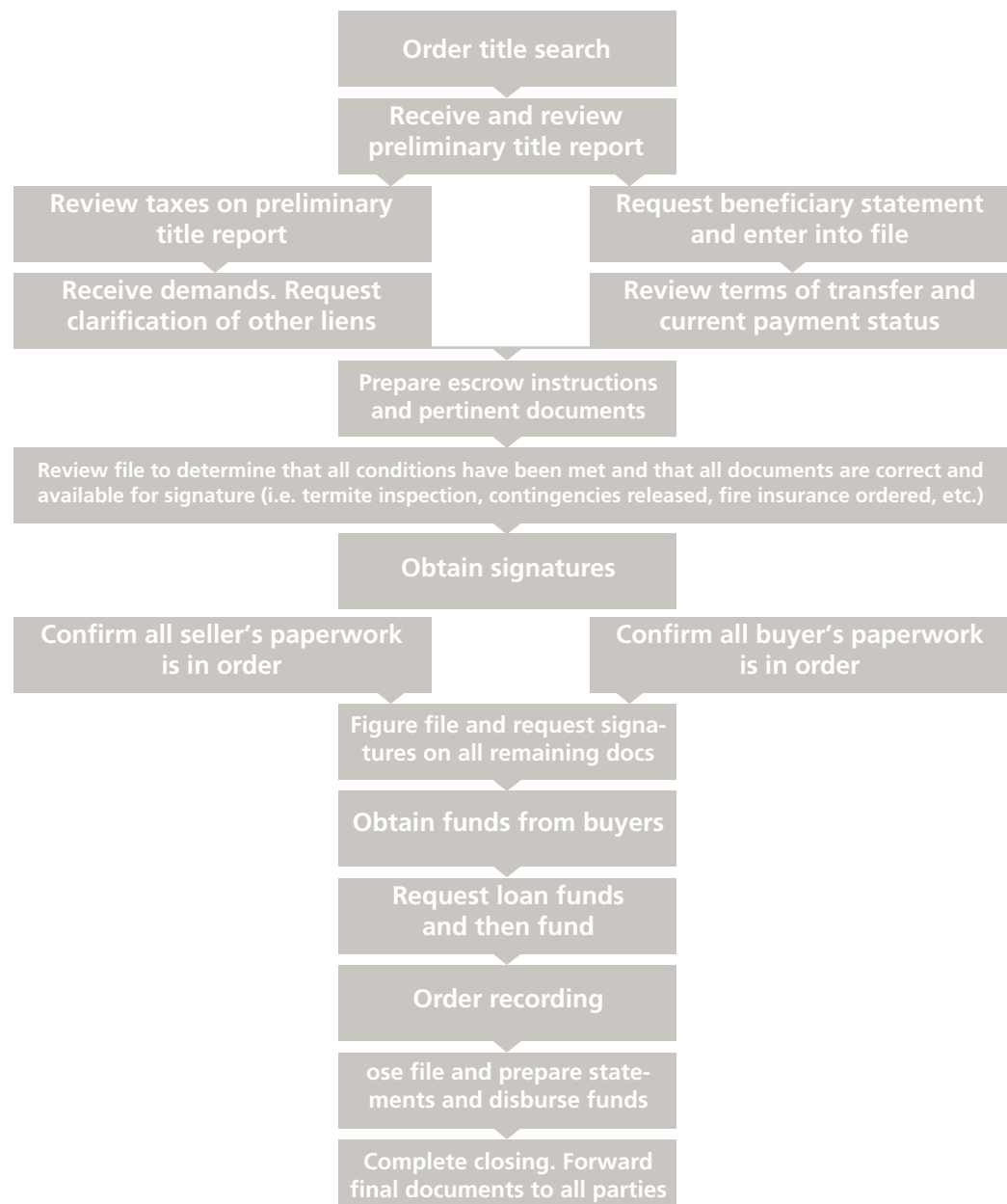




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## The Escrow Flowchart

Escrow opens when the buyer and seller sign a sales contract. The contract, along with any additional instructions, serves as instructions for the escrow officer. Escrow assures that the lender releases the home purchase funds as or about the same time that the deed is recorded to reflect new ownership. Escrow includes depositing, with North American Title Company, funds, documents and instructions necessary to complete the transfer. Below is a rough outline of an escrow officer's duties to complete each escrow.



# Annual Tax Calendar

2nd Installment: January 1 – June 30	Computing delinquent penalties <i>(cont'd from Dec. 10)</i>	January	January 1: Assessment Due	
	↓	February	February 1: 2nd Installment Due	
		March	March 1: Taxes on Unsecured Roll Due	
	April 10 – Jun 30: One or both installments delinquent – Add 10% + \$10 fee	↓	April	April 10: 2nd Installment Delinquent  April 15: Last day to file Homeowners, Veterans and Senior Citizen Exemption
June			June 8: Publication date for Delinquent Taxes	
1st Installment: July 1 – December 31	July 1 on – One or both installments delinquent – Add 10% + \$10 fee + \$15 redemption charge + 1.5% per month	July	July 1: Beginning of Fiscal Year to July 1 of following year  July 1: Properties with delinquent taxes sold to state  July 1: Owners to be informed of new values  July (first Monday): Assessment Appeal Board  July 30: Last day to advise owners of new values	
	↓	August	August: Sale Numbers assigned for delinquent taxes	
		September	September: Tax Rates set	
		November	November 1: First Installment Due	
		December	December 10: First Installment Delinquent	
		December 10 – April 10: 1st installment delinquent – Add 10%		





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## Avoid Property Tax Penalties

**Many tax delinquencies occur during the first year of property ownership. As a new property owner you should be aware of the following:**

**Name on Tax Roll & Tax Bill** The assessment roll from which tax bills are prepared is required, by law, to list the assessee as of January 1st of that year. Property is assessed to the owner as of January 1st of that year. Deeds recorded after January 1st, therefore, would not reflect a change of ownership on the tax rolls until the following year.

**Tax Bills are Mailed Only Once a Year** Tax bills are mailed in the latter part of October, to the owner of the property as of January 1st of that year. If your deed was recorded after January 1st of that year, the tax bills would reflect the previous owner's name and you may not receive a tax bill until the next year, even though as owner you are liable for the taxes. If you do not receive a tax bill by November 15th, and if taxes were paid in escrow through December 31st ONLY, you should contact the Tax Collector's office for replacement bills.

**Due Date** Real Property taxes are due and payable (and delinquent) the same dates every year. The first installment is due November 1st and delinquent after December 10th. The second installment is due February 1st and delinquent after April 10th. You may wish to make note of these dates. The post office cancellation mark is used by the tax collector as the date of receipt of your payment, and it must be post-marked no later than April 10th and December 10th.

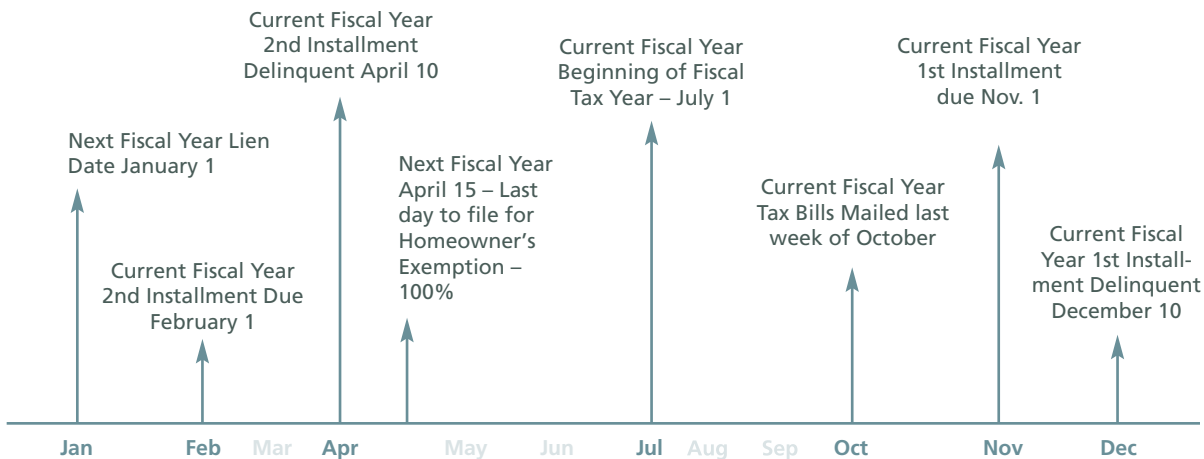
**Failure to Receive a Tax Bill** This does not relieve the owner from the liability to pay taxes, nor does it relieve the imposition of penalties. State tax laws place the responsibility of obtaining a tax bill and making payment timely upon the property owners.

**Supplemental Property Taxes** The property which you are purchasing will be reassessed upon the change of ownership. The reassessment will generally be in the form of an increase in taxes based on the new property value. In addition, there may be supplemental taxes assessed against the property, either prior to or after the close of your escrow and any recent change of ownership and/or document or record indicating a work of improvement to the property.

**In the event you require additional information or have questions regarding your property taxes, you should contact the Tax Collector's office of the county in which the property is located.**

# Quick Guide to Property Taxes

## Property Tax Timeline



## Tax Impound Reserve Schedule

Closing Month	First Payment	Pay 1st in Escrow	Pay 2st in Escrow	Months required by lender to impound
January	March		Yes*	5
February	April		Yes*	0
March	May		Yes	1
April	June		Yes	2
May	July		Yes	3
June	August		Yes	4
July	September			5
August	October	??*		6
September	November	Yes		7
October	December	Yes		2
November	January	Yes		3
December	February	Yes		4

**Notes:** Owner must own and occupy property on the first of March to be eligible for applicable exemptions. Penalties for delinquency are 10% on the date of delinquency plus \$10 costs for delinquent second installments. Property may be sold at public auction after five years of delinquency. The above excludes payment requirements for supplemental taxes.

\*Lender may or may not require payment





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## Supplemental Taxes

On September 29, 2005, Governor Schwarzenegger signed AB459 into law. AB459 requires seller and their agents to provide prospective buyers with a Supplemental Property Tax Bill Notice.

This notice requirement is completely different from the Mello-Roos and Special Assessment disclosure requirements. The legislature was very clear that the notice was meant to be just that – a notice that the buyer will be receiving a supplemental property tax bill. When ownership changes, the respective County Assessor is required to revalue the property pursuant to the California Supplemental Tax law passed in 1983. The supplemental tax law was enacted under Senate Bill 813 in 1983 to provide greater revenue for California schools. It arose as a result of provisions of Proposition 13, passed in 1978, that often created great increases in the assessed values of properties when they changed ownership, yet the tax due on these greater values could not be collected for as much as fifteen months.

The reason this notice is important to buyers is because the supplemental tax bill is sent to the buyer only, and not the lender. If the buyer has arranged for their property tax payments to be impounded, that is to be collected and paid by the lender, these tax bills are not normally included in the impound account and will not be paid by the lender. The buyer will have to come up with the money to pay the supplemental tax.

Further, with this new notice the seller is not required to provide an estimated calculation of what the property tax may be or will be upon the close of escrow.

### What are Supplemental Tax Bills?

Prior to the passage of SB 813 (Section 75 et seq. the Revenue and Taxation Code) Statutes of 1983 and as a result of the passage of Article XIII of the State Constitution (Proposition 13) County Assessors rolled back assessments to 1975 levels and could only thereafter be adjusted upward by a maximum 2% annual inflation factor as long as the property remained in the same ownership and there was no new construction. When a change of ownership or new construction did occur, the property would be reappraised to its current full market value, but was not effective until the tax year following the change. This meant that a property that changed ownership after the then in effect March 1 lien date of the current tax year could escape reappraisal until the following year. Property would not be subject to higher taxes until the next July 1st following reappraisal.

With the enactment of SB 813 the Assessor is now able to assess property as a result of a change of ownership or new construction at anytime during the tax year and issue a Supplemental Tax bill to the owner reflecting the new values and the additional taxes that resulted from the new value.

Since the Tax Bills are issued based on California's fiscal year which begins July 1st and property taxes are currently issued based on the ownership or condition as of the preceding January 1st it is possible that the Assessor's will have to adjust the taxes for 2 fiscal years as a result of a change occurring after January 1st of any year. One for the portion of the fiscal year that began the prior July 1st and one for the fiscal year that will begin the next July 1st.

**In determining the increase in taxes the following factors are taken into consideration:**

- What was the value prior to the change of title or completion of improvements?
- What is the new value?
- What is the tax rate in effect at the time of the change?
- How much of the fiscal year remains to the taxes being adjusted?

*Consumers should speak with their County Assessor's Office for further inquiry about Supplemental Taxes.*

## Escrow Tips and Hints

**Escrow delays can put a hold on you taking ownership of your home.**

Escrow delays can be caused by any number of things, most of which are preventable. To keep your escrow on track, follow the guidelines below:

- Return your escrow officer's phone calls in a timely manner
- Complete all of your forms fully and return them to escrow on time
- Make sure that your Grant Deed is both signed and notarized
- Tell your agent or escrow officer about any problems as soon as you know about them
- Give your escrow officer and/or real estate agent notification if you know about your loan being approved
- Get your insurance agent's name and information to escrow as quickly as possible

### **Nine Tips for a Successful Closing with North American Title Company**

1. Ask your escrow officer to prepare an estimated statement to determine the correct loan amount when cash-outs are an issue.
2. Agents should contact their buyer before the lender sends out docs to confirm the loan amount and loan program. Make sure they are going to be available for signature.
3. If there is going to be an impound account, have your loan officer set it up so as to avoid a redraw.
4. If someone other than the buyers are on title to the property and will not be on the loan, inform your escrow officer ASAP so s/he can get in touch with them to sign the necessary documentation and verify if they are expecting money in exchange for the deed.
5. Make sure your escrow officer is given the names of all of the buyers when escrow is opened so that the names can be run for possible liens.
6. Verify with your client whom their current lender is, their phone number, and the loan number.
7. Subordinations can add two to three weeks to the escrow period, so be sure to alert your escrow officer as soon as you know it will be an issue.
8. If you will be out of the country during the escrow, you will need to sign documents at the American Consulate or Embassy.
9. Make sure you have a current California ID or a driver's license at your sign-off.





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## Closing Costs

Below is an overview of the types of closing costs you may incur on your loan. Some are one-time fees while others recur over the life of the loan. When you apply for your loan, you will receive a Good Faith Estimate of Settlement Charges and a booklet explaining these costs in detail.

**Loan Origination Fee** ♦ This fee covers the lender's administrative costs in processing the loan. It is a one-time fee and is generally expressed as a percentage of the loan amount.

**Loan Discount** ♦ Often called "Points", a loan discount is a one-time charge used to adjust the yield on the loan to what market conditions demand. One point is equal to 1% of the loan amount.

**Appraisal Fee** ♦ This is a one-time fee that pays for an "appraisal", a statement of property value required on most loans. The appraisal is made by an independent appraiser.

**Credit Report Fee** ♦ This one-time fee covers the cost of the credit report which is processed by an independent credit reporting agency.

**Title Insurance Fees** ♦ There are two title policies, a buyer's title policy (which protects the new homeowner) and a lender's title policy (which protects the lender against loss due to a defect in the title). These are both one-time fees.

**Miscellaneous Title Charges** ♦ The title company may charge fees for a title search, title examination, document preparation, notary fees, recording fees and a settlement of closing fee. These are all one-time charges.

**Document Preparation Fee** ♦ There may be a separate, one-time fee that covers preparation of the final legal papers, including the note and deed of trust.

**Prepaid Interest** ♦ Depending on the day of the month your loan closes, this charge may vary from a full month interest to just a few days interest. If your loan closes at the beginning of the month, you will probably have to pay the maximum amount. If your loan closes near the end of the month, you will only have to pay a few days interest.

**Private Mortgage Insurance (PMI) Premium** ♦ Depending on the amount of your down-payment, you may be required to pay a fee for mortgage insurance (which protects the lender against loss due to foreclosure). You may also be required to put a certain amount for PMI into a special reserve account (called an impound account) held by the lender.

**Taxes & Hazard Insurance** ♦ Based on the month you close, property taxes will be prorated between you and the seller. You will also need to pay an entire year's hazard insurance premium up front (Homeowner's insurance). In addition, you may be required to put a certain amount for taxes and insurance into a special reserve account (impound account) held by the lender.

# Glossary of Terms

**Acknowledgment:** A formal declaration made before an authorized official (usually a notary public), by the person who has executed (signed) a document, that such execution is his/her own act and deed. In most instances a document must be acknowledged (notarized before it can be accepted for recording).

**Adjustable Rate Mortgage (ARM):** A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMLs (adjustable mortgage loans) or VRMs (variable rate mortgages).

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

**Affidavit:** A sworn statement in writing, made before an authorized official.

**A.L.T.A.:** Abbreviation for the American Land Title Association.

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

**Annual Percentage Rate (APR):** The total finance charges (interest, loan fees, points) expressed as a percentage of the loan amount.

**Assessments:** Specific and special taxes (in addition to normal taxes) imposed on real property to pay for public improvements within a specific geographic area.

**Assumption of Mortgage:** A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.

**Attorney-In-Fact:** An agent authorized to act for another under a power of attorney.

**Balloon Payment:** A lump sum principal payment due at the end of some mortgages or other long-term loans.

**Beneficiary:** As used in a trust deed, the Lender is designated as the Beneficiary, i.e. obtains the benefit of the security.

**Binder:** Sometimes known as an offer to purchase or an earnest money request. A binder is the acknowledgment of a deposit along with a brief written agreement to enter into a contract for the sale of real estate.

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

**CC&Rs:** Covenants, Conditions and Restrictions.

A document that controls the use, requirements and restrictions of a property.

**Certificate of Reasonable Value (CRV):** A document that establishes the maximum value and loan amount for a VA guaranteed mortgage.

**Conventional Loan:** A mortgage loan which is not insured or guaranteed by a governmental agency.

**Closing Statement:** The financial disclosure statement that accounts for all of the funds received and accepted at the closing, including deposits for taxes, hazard insurance, and mortgage insurance.

**Condominium:** A form of real estate ownership. The owner receives title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surfaces (walls, floors, and ceilings) serve as its boundaries.

**Contingency:** A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be contingent upon the buyer obtaining financing.

**Conversion Clause:** A provision in some ARMs that enables you to

change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed-rate mortgages. This conversion feature may cost extra.

**Cooperative:** A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

**CRB:** Certified Residential Broker. To be certified, a broker must be a member of the National Association of Realtors, have five years' experience as a licensed broker and have completed five required Residential Division courses.

**Deed:** Written instrument by which the ownership of land is transferred from one person to another.

**Deed of Trust:** Written instrument by which title to land is transferred to a trustee as security for a debt or other obligation. Also called Trust Deed. Used in place of mortgages in many states.

**Deposit Receipt:** Used when accepting "Earnest Money" to bind an offer for property by a prospective purchaser; also includes terms of a contract.

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

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

**Easement:** A right or power of the government to take property for a public purpose upon payment of just compensation.

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

**FHA Loan (Federal Housing Administration):** A federal agency, created by the National Housing act of 1934, for the purpose of expanding and strengthening home ownership by making private mortgage financing possible on a long-term, low down-payment basis. The vehicle is a mortgage insurance program, with premiums paid by the homeowner, to protect lenders against loss on these higher-risk loans. Since 1965, FHA has been part of the newly-created Department of Housing and Urban Development (HUD).

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

**Fee Simple:** An estate in which the owner has unrestricted power to dispose of the property as he wishes, including leaving by will or inheritance. It is the greatest interest a person can have in real estate.

**Finance Charge:** The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z.

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

**Grant:** A transfer of real property.

**Grantee:** The person to whom a grant is made.

**Grantor:** The person who makes a grant.

**GRI:** Graduate Realtors Institute. A professional designation granted to a member of the National Association of Realtors who has successfully completed three courses covering Law, Finance and Principles of Real Estate.





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

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

**Impound Account:** Funds retained by a lender to cover such items as taxes and hazard insurance premiums.

**Index:** A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.

**Joint Tenancy:** An equal undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.

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

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

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

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

**Mortgage Banker:** A company or individual engaged in the business of originating mortgage loans with its own funds, selling those loans to long-term investors, and servicing the loans for the investor until they are paid in full.

**Mortgage Life Insurance:** A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. If the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

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

**Origination Fee:** A fee or charge for work involved in evaluating, preparing, and submitting a proposed mortgage loan. The fee is limited to 1 percent for FHA and VA loans.

**Personal Property:** Movable property; all property which is not real property. Property consisting of chattels as contrasted to real estate; e.g. furniture, car, clothing.

**PITI:** Principal, interest, taxes and insurance.

**Planned Unit Development (PUD):** A zoning designation for property developed at the same or slightly greater overall density than conventional development, sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

**Point:** An amount equal to 1 percent of the principal amount of the investment or note. The lender assesses loan discount points at closing to increase the yield on the mortgage to a position competitive with other types of investments.

**Pre-Payment Penalty:** A fee charged to a mortgagor who pays a loan before it is due. Not allowed for FHA or VA loans.

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

**Purchase Agreement:** A written document in which the purchaser agrees to buy certain real estate and seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract, or agreement for sale.

**Real Property:** Land and buildings as opposed to personal property or chattels.

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

**Recordation:** Filing for record in the office of the county recorder.

**Regulation Z:** The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

**Tenancy in Common:** A type of joint ownership of property by two or more persons with no right of survivorship.

**Title:** Evidence of a person's right or the extent of his interest in property.

**Title Insurance Policy:** A policy that protects the purchaser, mortgagee or other party against losses.

**VA Loan:** A loan that is partially guaranteed by the Veterans Administration and made by a private lender.

**Veterans Administration (VA):** An independent agency of the federal government created by the service men's readjustment act of 1944 to administer a variety of benefit programs designated to facilitate the adjustment of returning veterans to civilian life. Among the benefit programs is the home loan guaranty program designated to encourage mortgage lenders to offer long-term low down payment financing to eligible veterans by guaranteeing the lender against loss on these higher-risk loans.









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