

North American News

The Binder

How to Possibly Save Money on Title Insurance

Planning ahead could save money on title insurance when selling a piece of real estate.

A buyer of a newly acquired property, if he anticipates selling it in the future, can use a **Binder** to reduce costs.

The purpose of the Binder is to allow a purchaser of real property to re-sell the same property and obtain a new policy of title insurance at a fraction of the cost.

For example, let's say the purchaser plans to re-sell the property within two years. The seller customarily pays the policy fee. In this case, in addition to the policy bought by the seller, the purchaser can pay 10 percent of the title insurance costs at the time of the purchase to secure a Binder.

Once the Binder is in place, if the property is sold within two years, instead of paying a full premium, the Binder holder pays only the difference between *the title premium cost based on the current sales price less the title premium cost based on the prior sales price*. Thus experiencing a substantial savings!

The Binder is good for two years, but may be extended for an additional ten percent per year. Examples provided are based on current rates for an ALTA/CLTA 1998 Homeowner's Policy for 1-4 families, individual buyer.

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How Does it Work?

Adam sells his property for \$300,000. Betty knows this is a short-term investment for her buyer, so she requests a Binder before the close of escrow.

The escrow closes and the charges are as follows: Adam, as the seller, pays a CLTA Homeowners policy fee of \$1,096. Betty's client, as the buyer, pays \$110 (10% of the policy rate) to acquire the Binder.

A year and a half later Betty's client puts the property on the market and Betty finds a buyer at the sales price of \$400,000. *This is where the Binder will benefit Betty's client.*

Betty's client, now being the seller, will pay for title insurance. Without the Binder, the policy rate for a \$400,000 sale would be \$1,294. But because the Binder is in place, Betty's client is only responsible the difference between the rate on the original purchase price and the current sales price (\$1294 - \$1096 = \$198).

So overall Betty's client paid \$110+\$198 = \$308, saving \$986 !!

BETTY'S CLIENTS TITLE INSURANCE COSTS

	Without Binder	With Binder
At Purchase	\$ 0	\$ 110
At Sale	\$ 1,294	\$ 198
Total Cost	\$ 1,294	\$ 308

Savings of \$986

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