WFG National Title Company
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# What is Title Insurance?

## ABOUT TITLE INSURANCE

Title insurance insures against financial loss from defects in title, liens or other matters. It protects both purchasers and lenders against loss by the issuance of a title insurance policy. Usually, during a purchase transaction the lender requests a policy (commonly referred to as the Lender's Policy) while the buyers receive their own policy (commonly referred to as an Owner's Policy).

It will protect against lawsuits if the status of the title to a parcel or real property is other than as represented, and if the insured (either the owner or lender) suffers a loss as a result of a title defect. The insurer will reimburse the insured for that loss and any related legal expenses.

Generally there are two policies issued: the Lender's Policy which insures the lender for the amount of the loan and the Owner's Policy which insures the purchaser for the purchase price.

**How is title insurance different than other types of insurance?**

While the purpose of most other types of insurance is to assume risk through the pooling of monies for losses happening because of unforeseen future events (like sickness or accidents), the primary purpose of title insurance is to eliminate risks and prevent losses caused by defects in title arising out of events that have happened in the past. To achieve this, title insurers perform a thorough search and examination of the public records to determine whether there are any adverse claims (title defects) attached to the subject property. These defects/claims are either eliminated prior to the issuance of a title policy or their existence is excepted from coverage. The policy is issued after the closing of your new home, for a one time nominal fee, and is good for as long as you own the property.

**What's involved in a title search?**

A title search is made up of three separate searches:

- <u>Chain of Title</u> – History of the ownership of the subject property
- <u>Tax Search</u> – The tax search shows the status of the taxes and assessments
- <u>Judgment and Name Search</u> – Searches for judgment and liens against the owners' and purchasers' name

**After the three searches have been completed, the file is reviewed by an examiner who determines:**

- If the Chain of Title shows that the party selling the property has the rights to do so.
- If the taxes for the subject property show the existence of any special assessments against the land and whether or not these assessments are current or past due.
- Whether there are any unsatisfied judgments on the Judgment and Name Search against the previous owners, sellers, or/and purchasers.

Rights established by judgment decrees, unpaid federal income taxes and mechanic liens all may be prior claims on the property, ahead of the buyer's or lender's rights. The title search will only uncover issues in title that are of public records and therefore allowing the title company to work with the seller to clear up these issues and provide the new buyer with title insurance.

## IN SUMMARY

Once the searches have been examined the title company will issue a commitment, stating the conditions under which it will insure title. The buyer, seller and the mortgage lender will proceed with the closing of the transaction after clearing up any defects in the title that have been uncovered by the search and examination.

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# What is Escrow?

## UNDERSTANDING THE ESCROW PROCESS

An escrow is an arrangement made under contract between a Buyer and Seller. As the neutral third party, escrow is responsible for receiving and disbursing money and/or documents. People buying and selling real estate open an escrow for their protection and convenience. Both the buyer and seller expect the escrow agent to carry out their written instructions associated with the transaction and also to advise them if any of their instructions are not being met, or cannot be met. If the instructions from all parties to an escrow are clearly set out, the escrow officer can proceed on behalf of the buyer and seller without further consultation.

## TYPICAL ROLES IN THE CLOSING PROCESS

**The Seller/Agent**

- Delivers Purchase Sale Agreement to the escrow agent.
- Prepares the paperwork necessary to close the transaction.

**The Buyer/Agent**

- Deposits funds required to close in with the escrow agent.
- Approves the commitment for title insurance, or other items as called for by the Purchase Sale Agreement.
- Executes the paperwork and loan documents necessary to close the transaction.

**The Lender**

- Deposits loan documents to be provided by the buyer.
- Deposits the loan funds.
- Informs the escrow agent of the conditions under which the loan funds may be used

**The Escrow Agent**

- Clears Title
- Obtains title insurance
- Obtains payoffs and release documents for underlying loans on the property
- Receives funds from the buyer and/or lender.
- Prepares vesting document affidavit on seller's behalf.
- Prorates insurance, taxes, rents, etc.
- Prepares a final statement (often referred to as the "HUD Statement" or "Settlement Statement") for each party, indicating amounts paid in conjunction with the closing of your transaction.
- Forwards deed to the county for recording.
- Once the proper documents have been recorded, the escrow agent will distribute funds to the proper parties.

## IN SUMMARY

Escrow is the process that gathers and processes many of the components of a real estate transaction. The sale is officially closed when the new deed is recorded and funds are available to the seller, in turn transferring ownership from the seller to the buyer. The escrow agent is a neutral third party acting on behalf of the buyer and seller under the Escrow Law as set forth in the State of California.