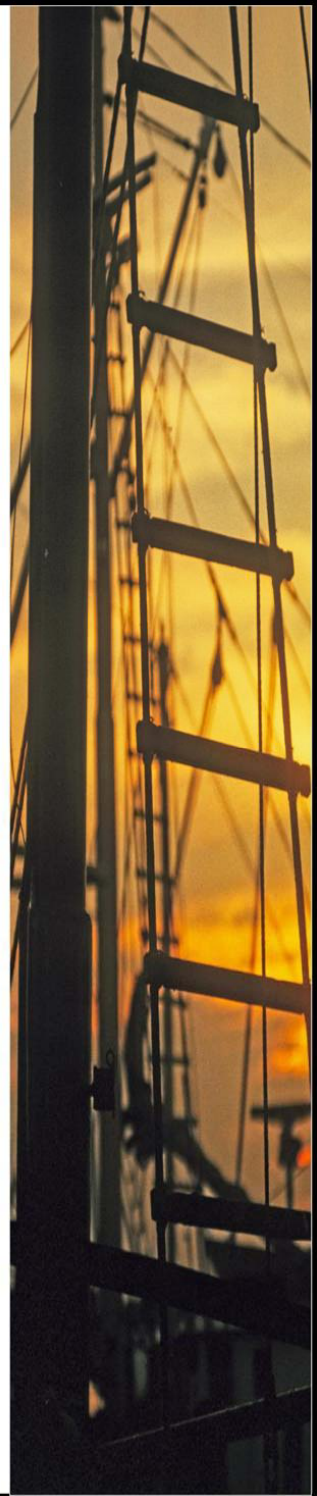


# A Guide to the Settlement Statement & Why Title Insurance



## **Your Guide to the Settlement Statement**

A real estate transaction involves a series of exchanges, not only between the buyer and seller, but also with the lenders, brokers, and state and local governments. The settlement statement accounts for all these exchanges, totaling the credits and debits to buyer and seller. It is designed to make a complex series of steps as simple and clear as possible.

### **Explanation of Page One of Settlement Statement**

Below are explanations of key items on the settlement statement. Note that the number next to each explanation corresponds to the line number on the settlement statement. The settlement officer explains all items on this form at the time of closing.

#### ***Summary of Borrower's Transaction***

##### **Gross amount due from borrower**

**101.** Contact Sales Price- The full purchase price as stated in the contract.

**103.** Settlement charges to borrower- Buyer's total charges, carried from page 2, line 1400

**106-112.** Adjustments from items paid by seller in advance- The buyer reimburses the seller for taxes, special assessments, homeowner dues or other charges that the seller has paid in advance. The adjustment is typically from the date of the settlement to the end of the fiscal year.

##### **Amounts paid by or on the behalf of borrower**

**201.** Deposit or Earnest Money- All the monies deposited by the buyer in good faith, to be applied against the purchase price of the property.

**202.** Principal Amount of New Loan- The amount of the buyer's new loan.

**203.** Existing Loan Taken Subject to- On assumptions or wrap loans, the outstanding principal balance of the seller's loan which is being assumed by the buyer.

**210-219.** Adjustments for Items Unpaid by Seller- Typically, the buyer is responsible for paying all bills received after closing. It is here that the seller reimburses the buyer for those charges he incurred but did not pay, such as water usage and ground rent. The buyer is credited for the period from the last payment due date through the date of settlement. All future bills will be the responsibility of the buyer.

#### ***Summary of Seller's Transaction***

##### **Gross amount due to seller**

**401.** Contract Sales Price- The full purchase price as stated in the contract.

**404-412.** Adjustments for Items Paid by Seller in Advance- The buyer reimburses the seller for taxes, special assessments, homeowner dues or other charges that the seller has paid in advance. The adjustment is typically from the date of settlement to the end of the fiscal year.

##### **Reduction In Amount due to Seller**

**502.** Settlement Charges to Seller- Seller's total charges, carried from page 2, line 1400.

**503.** Existing Loans Taken Subject to- On assumptions or wrap loans, the outstanding principal balance of the seller's loan which is being assumed by the buyer.

**504-505.** Payoff of First and Second Mortgages- The costs include:

1) Outstanding principal balance of the loan; 2) Interest from the date of the last payment due date through the date the lender receives the payoff check; and 3) Attorney's release fee, if applicable. Some lenders require that a separate fee be paid directly to their attorney for preparation of the release. *Note:* 10 FHA payoffs may include interest through the end of the month in which the loan will be paid. 2) Many lenders release the balance in the escrow account after the loan has been paid and satisfied. The lender will forward the escrow funds directly to the seller, usually within 30 to 45 days.

**506.** Deposit or Earnest Money- All monies deposited by the buyer in good faith, to be applied against the purchase price of the property. Typically the broker holds the buyer's deposit; it is applied toward payment of the commission due the seller (see line 703)

**508.** Maryland Withholding Tax- Sellers residing out of state may be required to pay a Maryland withholding tax based on guidelines set by the state. The following tax may apply: Individual 6% and Corporate Entity 7%.

**510-519.** Adjustments for Items Unpaid by Seller- Typically, the buyer is responsible for paying all bills received after closing. It is here that the seller reimburses the buyer for those charges he incurred but did not pay, such as water usage and ground rent. The buyer is credited for the period for the last payment due date through the date of settlement.

## **Explanation of Page Two of Settlement Statement**

The second page of the settlement statement itemizes all settlement fees assessed to the buyer and seller. *Note:* any items labeled "P.O.C." (paid outside closing) have been prepaid.

### **Settlement Charges**

Total Sales/ Broker Commission

**703.** Commission Paid at Settlement- Commission due the broker, minus any deposit the broker is holding lines 506 and 703 will equal the total commission due the seller.

**704.** Admin/Document Fee- This fee, a percentage of the amount of the new loan, compensates the lender for the expense of processing the loan.

### **Items to be Paid in Connection with the Loan**

**801.** Loan Origination Fee- This fee, a percentage of the amount of the new loan, compensates the lender for the expense of processing the loan.

**802.** Loan Discount- These are the "points" charged by the lender to increase its yield on a loan with a below market interest rate. One point is equal to one percent of the loan amount. The number of points will vary according to market conditions. The responsibilities of buyer and seller for paying the points should be stipulated in the sales contract.

**803-804.** Appraisal Fee and Credit Report- These are charged to the buyer and are usually paid when the buyer applies for the loan.

**805.** Lender's Inspection Fee- This charge applies when a lender must re-inspect the property after repairs have been made. The seller typically pays this fee.

**806.** Mortgage Insurance Application Fee- No longer a customary charge.

**807.** Assumption Fee- On assumptions or wrap loans, the lender usually assesses a fee to the buyer for processing the paperwork necessary to transfer the existing loan to the new buyer.

**808.** VA Funding Fee- A loan guarantee fee charge by the Veterans Administration to the veteran buyer. This fee is typically financed with the loan.

#### **Items Required by Lender to Be Paid in Advance**

**901.** Interest- “Per Diem” (per day) interest on the new loan from the date of settlement to the end of the month in which the loan closes. Keep in mind that interest is paid in arrears. For example, if you close in September, the first payment, due November 1, includes interest owed for the month of October. The “per diem” interest would cover interest due from the date of settlement through the end of September. Lender regulations determine whether payment is due at closing or on the first of the following month.

**902.** Mortgage Insurance Premium- On an FHA loan, buyers will be required to pay a one-time up front mortgage insurance premium in addition to the monthly mortgage insurance. This insures the lender against loss in the event of foreclosure. FHA will generally allow the buyer to finance all or most of the premium. On conventional loans, most lenders require mortgage insurance when the loan amount exceeds 80% of the purchase price. Typically, mortgage insurance is paid on a monthly basis.

**903.** Hazard Insurance Premium- The hazard (homeowner’s) insurance premium, if not already paid, is collected at settlement. The buyer should contact the lender prior to settlement for specific requirements concerning policy coverage.

#### **Reserves Deposited With Lender**

**1001-1008.** Insurance, Taxes, Assessments- Funds to cover these items are collected in advance from the buyer and held by the lender in an account to pay future obligations as they become due. This is referred to as an escrow. The amounts collected at settlement depend on the number of monthly payments to be made between settlement and the date each charge is due *NOTE:* Selection of semiannual taxes is normal and customary for principal residence. There is a maximum two-month cushion of taxes and insurance that a lender may require. An initial analysis of the escrow is made by the lender to verify that sufficient funds have been collected for projected payments throughout the first year of the loan and to further verify that an excess beyond the allowable two month cushion would not occur. Any additional adjustment made to the escrow account would be called an “aggregate adjustment.”

#### **Title Charges**

**1101.** Settlement or Closing Fee- A Charge for conducting the settlement.

**1102.** Abstract or Title Search (Includes judgments, copies and processing)- This includes the fee for performing the necessary research of the land records in the jurisdiction where the property is located, in order to establish the seller’s right to convey the property to the buyer.

**1103-1111.** Title Examination/ Title Review- A title examination is performed to determine if the seller has clear and marketable title to the property. The examination also discloses any matters of record that could adversely affect the buyer, the lender, or others with an interest in the property. Examples of these problems include unpaid mortgages, judgments, tax liens and open bankruptcies.

**1104.** Title Insurance Binder- A fee for issuing title insurance commitments protecting both the lender and the buyer.

**1105.** Document Preparation- The title company's fees for preparation of the Deed, and other related documents.

**1106.** Notary Fees- Fee for notarization of documents, usually paid by the buyer.

**1107.** Attorney's Fees- A fee charged for the services provided over and above the customary services included in the title examination fee. These might include fees for preparation of additional documents required at closing, such as power of attorney, subordination agreement, etc.

**1108.** Title Insurance- This is a one-time premium, paid at settlement, protecting the buyer and the lender against other claims of ownership as a result of forgeries, recording errors, or other title problems. A policy insuring the lender is required; a second policy protecting the buyers equity is optional but highly recommended. If a competing claim to title is found valid, the title company guarantees against loss to the extent of the purchase price of the property, if an owner's policy is purchased.

**1111.** Title Review- See title examination

**1113.** Procurement of Release of Mortgage- A charge to the seller for obtaining mortgage payoff figures and the release of mortgage from the lender. Any cost incurred in transmitting the payoff to the lender is normally included.

#### **Government Recording and Transfer Charges**

**1201.** Recording Fees- Charges levied to the buyer or seller, where appropriate, for recording documents in the land records.

**1202.** County Tax/Stamp- A one-time assessment imposed by the county on property transfers and/or mortgages. Typically these are known as "documentary stamps".

**1203.** Transfer Taxes- A one-time assessment by the state and most counties on the transfer of property. Qualified first time homebuyers in the State of Maryland are exempt from paying state transfer tax. *NOTE:* The cost of items in lines 1202-1203 vary from county to county. Local custom or contract provisions will dictate whether buyer or seller will pay for these charges.

**1204.** Lien Certificate- A statement issued by the local taxing authority disclosing the status of the taxes.

#### **Additional Settlement Charges**

**1301.** Survey- A house location drawing which locates the improvements on the lot. Among other things, this survey will disclose encroachments or violations of setback lines.

**1302.** Pest Inspections- A certificate issued by the licensed pest inspection company. The contract will specify whether buyer or seller pays the charge.

**1304.** Admin of: Wire/ Courier/ Hand Record- Fees to expedite payoffs to insure timely abatement of interest and the recording of documents.

# Why Title Insurance

## Protecting Your Largest Single Investment

Title insurance is not as well understood as other types of home insurance, but it is just as important. You see, when purchasing a home, instead of purchasing the actual building or land, you are really purchasing the title to the property- the right to occupy and use the space. That title may be limited by rights and claims asserted by others, which may limit your use and enjoyment of the property and even bring financial loss. Title insurance protects against these types of hazards.

Other types of insurance that protect your home focus on possible future events and charge an annual premium. On the other hand, title insurance protects against loss from hazards and defects that already exist in the title and is purchased with the one-time premium.

## Two Kinds of Title Insurance Benefit you in Two Ways

There are two basic kinds of title insurance:

- Lender or mortgage protection
- Owner's Coverage

Most lenders require mortgage title insurance as security for their investment in real estate, just as they may call for fire insurance and other types of coverage as investor protection. When title insurance is provided, lenders are willing to make mortgage money available in distant locales where they know little about the market.

Owner's title insurance lasts as long as you, the policyholder- or your heirs- have an interest in the insured property. This may even be after you have sold the property.

Depending on local practices and state law where the property is located, you may pay an additional premium for an owner's policy or you may pay a simultaneous issue charge- usually a smaller amount- for the separate lender coverage. You may even split settlement costs with the seller for the lender or owner's policy.

## What Does Your Premium Really Pay For?

An important part of title insurance is its emphasis on risk elimination before insuring. This gives you, as the policyholder, the best possible chance for avoiding title claim and loss.

Title insuring begins with the search of public land records affecting the real estate concerned. An examination is conducted by the title agent or attorney on behalf of its underwriter to determine whether the property is insurable. The examination of evidence from a search is intended to fully report all "material objections" to the title. Frequently, documents that don't clearly transfer title are found in the "chain" or history that is assembled from the records in the search. Here are some examples of documents that can present concerns:

- Deeds, wills and trusts that contain improper wording or incorrect names
- Outstanding mortgages and judgments, or a lien against the property because the seller has not paid his taxes
- Easements that allow construction of a road or utility line
- Pending legal action against the property that could affect a purchaser
- Incorrect notary acknowledgments

Through the search and examination, title problems are disclosed so they can be corrected whenever possible. However, even the most careful preventative work cannot locate all hidden title hazards.

### **Hidden Title Hazards- You Last Defense**

In spite of all the expertise and dedication that go into a title search and examination, hidden hazards can emerge after closing, resulting in unpleasant and costly surprises. Some examples of hazards include:

- A forges signature on the deed, which would mean no transfer of ownership to you
- An unknown heir of a previous owner who is claiming ownership of the property
- Instruments executed under an expired or a fabricated power of attorney
- Mistakes in the public records

Title insurance offers financial protection against these and other covered title hazards. The title insurer will pay for defending against an attack on title as insured, and will either perfect the title or pay valid claims- all for one-time charge at closing.

Your home is your most important investment. Before you go to closing, ask about your title insurance protection, and be sure to protect your home with the owner's title insurance policy.



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