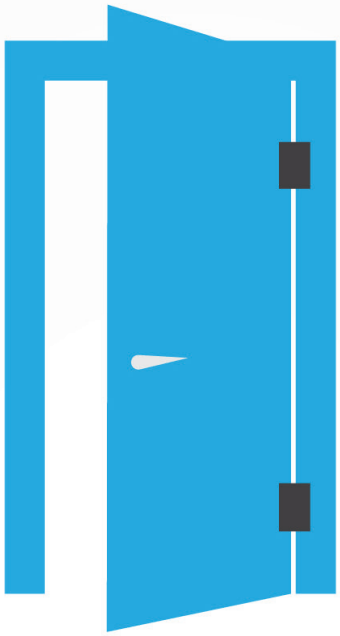
Closing the Door on Your Real Estate Transaction



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Why escrow, title insurance and homeowner's insurance are key to sealing the deal.

What you need to know about escrow

When you buy a house you hear a lot about escrow, even if you're not exactly sure what it means. Simply put, escrow is the third party (after buyer and seller) in a real estate transaction. In fact, escrow is the neutral third party – someone with no skin in the game, nothing to gain or lose from the transaction – who handles the transfer of funds and documents from one party to another. Escrow can be handled by an independent escrow agent, a title agent, an attorney or a bank or lender.

Because it's essential that all conditions of a real estate sale are met before either property or money change hands, it's the duty of the escrow agent to:

- Juggle all incoming paperwork and money from the principals (buyer, seller, agent, lender and others)
- Arrange a title search
- Precisely carry out the written instructions given by the principals (buyer, seller, lender)
- Write escrow instructions on behalf of the principals (buyer, seller, lender)
- Schedule the closing meeting
- Disburse all funds
- Transfer title
- See that everything that needs to be recorded with the county is completed

Whew, that's a lot of work. And given the number of people and documents involved, it's easy to see why this relationship needs to be an impartial one. There are several different ways escrow appears during the real estate process.

1. Typically, an escrow account is where your earnest money sits pending close of your loan.
2. At the end of the transaction, after all the paperwork is signed, funds have been disbursed, deed has been filed and property legally transferred, the sale is considered complete and escrow is closed.
3. After closing, your lender may set up an escrow account to hold money the lender will use to pay your property taxes and homeowner's insurance on your behalf.

All of these escrow services, though different in purpose, nonetheless involve the participation of a neutral third party. And that's the key.

What you need to know about title insurance

As a buyer, you want to know the home you're purchasing will be yours, free and clear of liens, unpaid taxes or claims of ownership. Your lender wants the same assurance, to know that the property is legitimately and legally the seller's to sell. So before closing a title company is hired to scrutinize a raft of public records – such as liens, claims, deeds, wills, trusts, tax records and maps – to make sure there are no problems in the title's ownership and history for the property you want to buy. If a title search uncovers any problems, you can deal with them before you close on the property. In the event something is missed and a dispute over property ownership occurs after closing, title insurance protects you and your lender from loss.

There are two types of title insurance:

- Owner insurance protects you, the buyer, from issues that might crop up after closing. Examples such as human error, forged documents, undisclosed or missing heirs, etc. An owner's policy protects you by making the insurance company liable for most claims against your ownership. Title insurance is a one-time, up-front investment that insures you for as long as you own the property; fee is based on the purchase price of your house. The policy takes effect on the date it is issued and is one of the itemized costs your lender will include at closing.

- Lender insurance protects your lender – and only your lender, not you – against any loss due to unknown title defects. It also guarantees the lender a valid first lien against the property.

The only time to buy title insurance is at closing. Read your policy carefully and make sure you know exactly what is covered and what is not; ask questions about anything you don't understand. Then be sure to keep your policy handy and in a safe place.

What you need to know about homeowner's insurance

A house is a major investment – perhaps the biggest one you're ever made. Because it is, you'll want to insure it. Guess what? Your lender wants that too. In fact, one of the conditions of your mortgage is getting homeowner's insurance, also known as hazard insurance. At closing you'll need to show proof of having homeowner's insurance and that

a year's premium has been paid. Without this proof your loan won't close.

Why insurance? Your lender wants to protect his or her interest in your property if catastrophe or other damage occurs. For example, if your home is destroyed by fire, the lender knows the mortgage will be repaid from the proceeds of the insurance. As the home's owner you'll want to insure it and its contents, as well as protect yourself against a lawsuit if someone is hurt or injured on your property.

The kind of insurance you need will depend on where you live (do you need flood, earthquake, wildfire or hurricane protection?) and what you own (do you need to cover cherished family jewelry? antique cars? a comic book collection?). Ask friends and family for insurance company referrals and research online resources to learn tips to save on your policy.