

GUIDE TO CLOSING COSTS

Selecting a Settlement Agent

Settlement practices vary from locality to locality, and even within the same county or city. Settlements may be conducted by lenders, title insurance companies, escrow companies, real estate brokers or attorneys for the buyer or seller. You may save money by shopping for the settlement agent.

In some parts of the country (particularly western states), settlement may be conducted by an escrow agent. The parties sign an escrow agreement which requires them to provide certain documents and funds to the agent. Unlike other types of settlement, the parties do not meet around a table to sign documents. Ask how your settlement will be handled.

Securing Title Services

Title insurance is usually required by the lender to protect the lender against loss resulting from claims by others against your new home. In some states, attorneys offer title insurance as part of their services in examining title and providing a title opinion. The attorney's fee may include the title insurance premium. In other states, a title insurance company or title agent directly provides the title insurance.

Owner's Policy. A lender's title insurance policy does not protect you. Similarly, the prior owner's policy does not protect you. If you want to protect yourself from claims by others against your new home, you will need an owner's policy. When a claim does occur, it can be financially devastating to an owner who is uninsured. If you buy an owner's policy, it is usually much less expensive if you buy it at the same time and with the same insurer as the lender's policy.

Choice of Title Insurer. Under RESPA, the seller may not require you, as a condition of the sale, to purchase title insurance from any particular title company. Generally, your lender will require title insurance from a company that is acceptable to it. In most cases you can shop for and choose a company that meets the lender's standards.

Review Initial Title Report. In many areas, a few days or weeks before the settlement or closing of the escrow, the title insurance company will issue a "Commitment to Insure" or preliminary report or "binder" containing a summary of any defects in title which have been identified by the title search, as well as any exceptions from the title insurance policy's coverage. The commitment is usually sent to the lender for use until the title insurance policy is issued at or after the settlement. You can arrange to have a copy sent to you (or to your attorney) so that you can object if there are matters affecting the title which you did not agree to accept when you signed the agreement of sale.

Coverage & Cost Savings. To save money on title insurance, compare rates among various title insurance companies. Ask what services and limitations on coverage are provided under each policy so that you can decide whether coverage purchased at a higher rate may be better for your needs. However, in many states, title insurance premium rates are established by the state and may not be negotiable. If you are buying a home which has changed hands within the last several years, ask your title company about a "reissue rate," which would be cheaper. If you are buying a newly constructed home, make certain your title insurance covers claims by contractors. These claims are known as "mechanics' liens" in some parts of the country.

Survey. Lenders or title insurance companies often require a survey to mark the boundaries of the property. A survey is a drawing of the property showing the perimeter boundaries and marking the location of the house and other improvements. You may be able to avoid the cost of a complete survey if you can locate the person who previously surveyed the property and request an update. Check with your lender or title insurance company on whether an updated survey is acceptable.