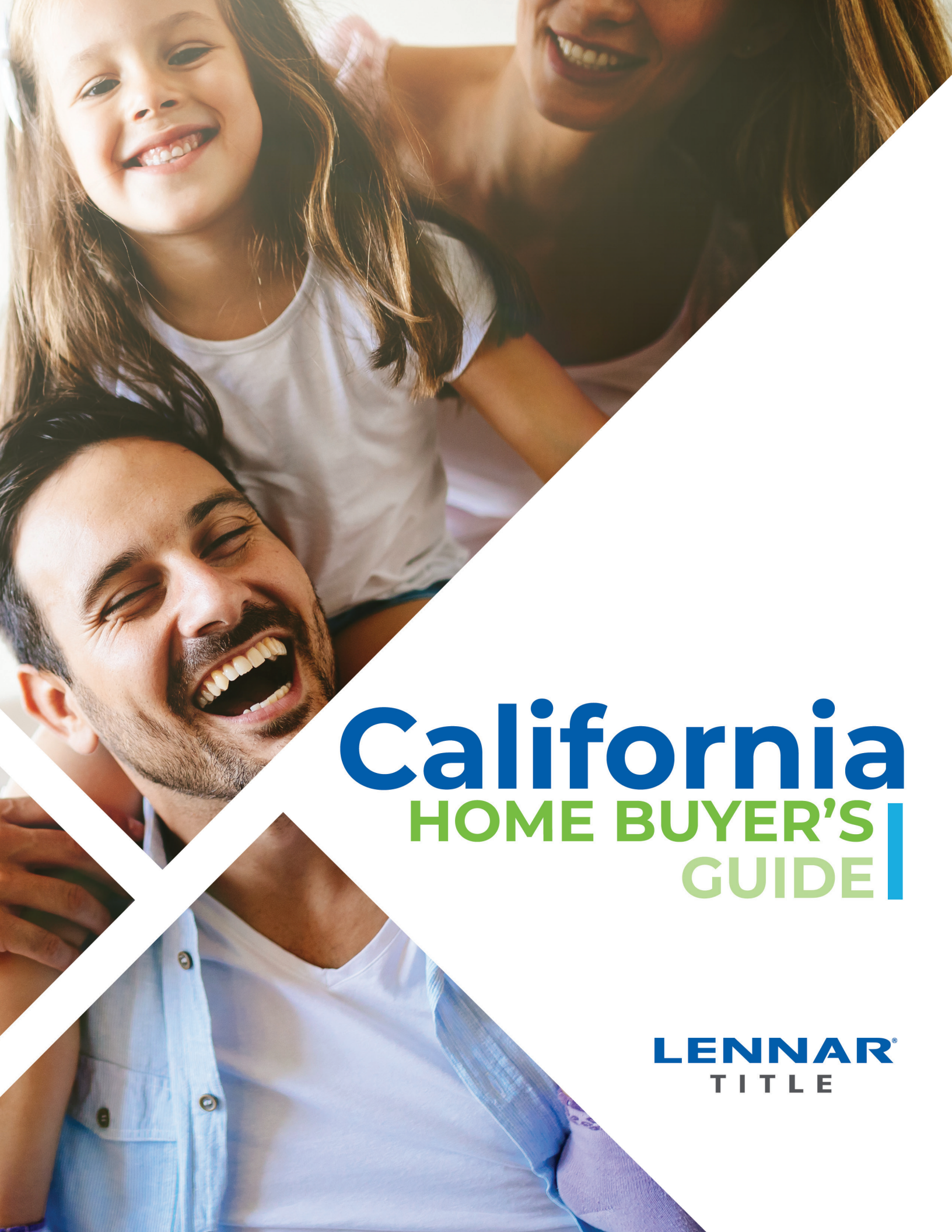




California

HOME BUYER'S GUIDE

LENNAR®
TITLE



Lennar Title

The Partner You Can Trust



Managing the complex parts of a real estate deal is the job of every real estate professional, and **Lennar Title** has the depth of experience and broad expertise to ensure each of your transaction is handled professionally and on time ... every time.

Our network of offices in many of the most active real estate markets in the country gives us a keen insight into local conditions and provides the foundation for our commitment to personalized service that is responsive, capable and flexible. As a subsidiary of **Lennar Corporation**, we are backed by the financial strength of the largest homebuilder in the nation, as well as having access to sophisticated systems and experienced personnel to work on your behalf.

Most importantly, our knowledgeable associates are uncompromising in their commitment to deliver highly attentive and professional service.

We combine a carefully chosen team, superior resources, and an unyielding commitment to quality to ensure you enjoy a smooth and efficient transaction experience.

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WHAT IS TITLE INSURANCE?

Title insurance, unlike property and casualty insurance, operates under the theory of risk elimination. Title companies spend a high percentage of their operating income each year collecting, storing, maintaining and analyzing information in official records that affects title to real property. Those title “plants” include records that may date back more than 100 years. Technical experts within the title company are trained to identify the rights others may have in your property, such as recorded liens, legal actions, disputed interests, rights of way or other encumbrances on your title. Before closing your transaction, the title company “clears” those issues. In fact, according to the American Land Title Association, more than one-third of all title searches reveal a problem that title professionals fix before you go to closing.

Most other types of insurance anticipate losses and collect premiums based on a certain number of claims that will be made over time. Instead, title insurance premiums are paid to identify and eliminate potential risks and claims before they happen. In addition, title insurance involves a one-time premium, paid when you close the real estate transaction, while property, casualty and medical insurance require regular renewal premiums.

The goal of title companies is to conduct such a thorough search and evaluation of public records that no claims will ever arise. Of course, we live in an imperfect world where human error and changing legal interpretations make 100 percent risk elimination impossible. So when claims arise, professional claims personnel are assigned to handle them according to the terms of the title insurance policy.

Title companies’ rates are filed with the California Department of Insurance, and each company is required to publicly post its schedule of fees. As in all competitive business environments, rates vary from company to company, so you should make a comparison before deciding on a particular title company. Your Real Estate Agent or Broker can assist you with this, and there are many online resources you may also find helpful.

*The **goal** of title companies is to conduct such a thorough search and evaluation of public records that no claims will ever arise.*

The Preliminary Report

The preliminary report contains vital information that may affect the willingness and ability of the parties to close escrow, including: ownership of the subject property, the manner in which the current owners hold title, matters of record specifically affecting the subject property or its owners, a legal description of the property and informational plat map.

The preliminary report indicates the type of title insurance offered by the title company and exclusions and exceptions from coverage. These include recorded deeds of trust; easements; agreements; and covenants, conditions and restrictions (CC&Rs).

Note: a Preliminary Report is NOT a guarantee of the state of title. The report is prepared in connection with an application for title insurance (Cal. Ins. Code Section 12340.11)





WHAT TO LOOK FOR

Your Real Estate Agent should review the preliminary report as soon as it arrives, with particular attention to certain areas:

- ▶ **Verify the ownership vesting.** The names on the report should match the names on the purchase contract. Sometimes the name of an unexpected owner will appear (i.e., a previous spouse or relative who died), and corrective documents may be required.
- ▶ **Verify the property address.** The plat map and legal description should match the address. An owner could own two properties adjacent to or across the street from each other, causing confusion in identifying the correct property.
- ▶ **Read the informational notes for pertinent items about the property,** i.e., transfer taxes, monument fees, homeowners' association fees, etc.
- ▶ **Carefully review the exceptions.** Common exceptions include current taxes, bonds, deeds of trust, Mello-Roos assessment district items, CC&Rs and easements. Be sure the CC&Rs or existing easements don't interfere with the Buyer's future plans. For example, an easement across the backyard could have a profound effect on the Buyer's ability to add a swimming pool later.
- ▶ **ALWAYS look for surprises.** If you can't locate an easement, if an unexpected deed of trust shows up or if you see an item you weren't aware of before, call your Escrow Officer to discuss the matter. We strive to be problem solvers and our top-notch team goes out of its way to resolve the majority of "red flag" areas. However, the responsibility for early detection and resolution of problems falls on the entire escrow team: the Real Estate Agents, escrow and title companies, and sometimes the Buyers and Sellers as well.



WHAT'S COVERED?

Not all risks can be eliminated by a title search, since certain “hidden defects” like forgeries, identity of persons, incapacity, incompetence, as well as failure to comply with the law cannot be disclosed by an examination of the public records. Where the preliminary report is an offer to insure under certain circumstances, the title policy is a contract, providing coverage against such hidden defects.

California Land Title Association (CLTA) Owner's Policies cover the following:

- ▶ Title to the estate or interest described in Schedule A being vested other than as stated therein
- ▶ Any defect in or lien or encumbrance on the title
- ▶ Unmarketability of the title
- ▶ Lack of right of access to and from the land

ALTA Owner's Policies with Western Regional Exceptions (Standard Coverage) are available for the same price as CLTA Policies, and provide broader coverage. Ten covered risks are insured compared to four on CLTA Owner's Policies. Because the covered risks are lengthy, we have not quoted them here. A copy of the complete policy jacket may be requested from your Lennar Title representative.

In addition to indemnifying the insured against losses that result from a covered claim, the policy also provides for legal fees and defense costs against lawsuits that allege covered claims against the property, in accordance with the policy terms.

Extended Owner's and Lender's policies provide broader coverage and are available through the American Land Title Association (ALTA). Coverage is extended to certain matters that are off-record but are generally discoverable by an inspection of the property or by questioning the parties in possession, such as:

- ▶ Unrecorded liens and encumbrances
- ▶ Unrecorded easements
- ▶ Unrecorded rights of parties in possession
- ▶ Encroachments, discrepancies or conflicts in the boundary lines

ALTA Policies are available for Lenders or Owners, and an ALTA Homeowners Policy is also available for residential property of one-to-four units owned by a natural person as defined by the policy terms.

Real Estate Agents, Buyers and Sellers should not assume that all title policies and title companies are the same. It is important to ask your Lennar Title representative questions to determine the type and cost of coverage best suited to you.

COMMON FORMS OF RESIDENTIAL OWNERSHIP



Ownership of Real Property

Real property may be owned by a sole owner, or it may be owned jointly by two or more persons. Concurrent ownership or co-ownership means simultaneous ownership of a given piece of property by two or more persons.

Common types of concurrent, residential ownership are:

- ▶ Tenancy in common
- ▶ Joint tenancy
- ▶ Community property
- ▶ Community property with right of survivorship

Tenancy in Common

A tenancy in common is characterized by only one unity, that of possession. It is created whenever an instrument conveys an interest in real property to two or more persons, and specifies tenancy in common. If a recorded conveyance document does not expressly specify the tenancy (joint tenancy, community property, etc.), the legal presumption is that the vesting is tenancy in common. Interest may be any fraction of the whole; thus one party may own one-tenth, another three-tenths, and a third party may own the remaining three-fifths. There is no right of survivorship; each tenant owns an interest that vests in his or her heirs or devisees upon death.

Joint Tenancy

Joint tenancy exists when two or more persons are joint and equal owners of the same undivided interest in specified property. The main characteristic of joint tenancy is the right of survivorship. When a joint tenant dies, his or her interest in the property is terminated, and the estate continues in the survivor or survivors.

The usual method of creation of a joint tenancy is by a deed describing the grantee as follows: "to A and B, as joint tenants." The words "with right of survivorship" are often added, but are not a requisite, since this right is an incident of a joint tenancy, whether expressly recited or not.

Problems have frequently arisen regarding the true character of the ownership of property by husband and wife as joint tenants. Frequently such property, despite the status of joint tenancy ownership, has been treated as community property for purposes of succession, transfer, disposition in divorce or seizure by creditors. It may be shown that property taken in joint tenancy was thereafter converted into community property by a written agreement.

The contention that joint tenancy property is in fact community property is often raised in divorce cases. The court does not have the power to make an award of separate property, but if it is established that joint tenancy property is in fact community property, the court may award such property to a spouse.

▶ *Continued*



Upon the death of one joint tenant, the title automatically passes to the survivor. Title insurance companies will require some formal procedure before recognizing the new owner.

Two methods are followed:

- Filing an Affidavit of Death of Joint Tenant or
- Obtaining a court decree of death of joint tenant

Community Property

Community property is a creation of the Civil Law of Rome and came to California via Mexico. When the Treaty of Guadalupe Hidalgo provided that property rights of Mexican subjects would be kept inviolate, early Californians felt compelled to continue the community property system and it was incorporated into the California constitution. In general, community property represents the earnings and accumulations of the marriage.

Persons who are not married to each other, or are not registered domestic partners, cannot hold community property together.

All property of married persons that is not their community property is the separate property of one or the other. Separate property consists of:

- Property owned before marriage
- Proceeds of separate property, such as dividends, rents, profits or property received in exchange for separate property

- Gifts and inheritances received after marriage
- Property agreed between the spouses to be separate property
- The earnings of one spouse when living separate from the other spouse

All deeds conveying community property must be signed by both spouses.

Community Property with Right of Survivorship

This is a form of vesting title to property owned together by husband and wife, same sex spouses or by registered domestic partners. It shares many of the characteristics of community property but adds the benefit of the right of survivorship similar to title held in joint tenancy. There may be tax benefits for holding title in this manner. The interest must be created on or after July 1, 2001.

On the death of an owner, the decedent's interest ends and the survivor owns the property. For example: Bruce Buyer and George Buyer, registered domestic partners, as community property with right of survivorship.

By providing this general information, Lennar Title is not giving legal advice. Please consult an attorney to determine how best to hold title for your specific situation.



COMMON FORMS OF RESIDENTIAL OWNERSHIP



How to Take Title to Real Property

	TENANCY IN COMMON	JOINT TENANCY	COMMUNITY PROPERTY	COMMUNITY PROPERTY WITH RIGHT OF SURVIVORSHIP
PARTIES INVOLVED	Any number of persons (can be spouses)	Any number of persons (can be spouses)	Only spouses or registered domestic partners	Only spouses or registered domestic partners
DIVISION	Ownership can be divided into any number of interests, equal or unequal	Ownership interests are equal	Ownership interests are equal	Ownership interests are equal
TITLE	Each co-owner has a separate legal title to his or her undivided interest	There is only one title to the whole property	Title in the "Community" (similar to title being in a partnership)	Title in the "Community" (similar to title being in a partnership)
POSSESSION	Equal right of possession	Equal right of possession	Equal right of possession	Equal right of possession
CONVEYANCE	Each co-owner's interest may be conveyed separately by its owner	Conveyance by one co-owner severs the joint tenancy	Both co-owners must join in conveyance of real property – separate interests cannot be conveyed	Both co-owners must join in conveyance of real property – separate interests cannot be conveyed
PURCHASER'S STATUS	Purchaser of an undivided interest becomes a tenant in common with the other co-owners	Purchaser of an undivided interest becomes a tenant in common with the other co-owners	Purchaser can only acquire whole title of community – cannot acquire a part of it	Purchaser can only acquire whole title of community – cannot acquire a part of it
UPON DEATH	Upon co-owner's death, his or her interest passes by will to devisees, or to heirs by intestate succession	Upon co-owner's death, his or her interest passes automatically to the survivor(s)	Upon co-owner's death, decedent's half passes automatically to surviving spouse unless willed to another party (Consult attorney with specific questions)	Last survivor owns property individually
SUCCESSOR'S STATUS	Portion passing by will results in tenancy in common between devisee and survivor	Last survivor owns property individually	Portion passing by will results in tenancy in common between devisee and survivor	Last survivor owns property individually
CREDITOR'S RIGHTS	Co-owner's interest may be sold on execution sale to satisfy his creditor – creditor becomes a tenant in common	Co-owner's interest may be sold by execution sale to satisfy a judgment lien. Joint tenancy is severed, and creditor becomes tenant in common with other co-owner	Co-owner's interest cannot be seized and sold separately (whole property may be sold to satisfy debts of either spouse depending on the debt – consult attorney with specific questions)	Co-owner's interest cannot be seized and sold separately (whole property may be sold to satisfy debts of either spouse depending on the debt – consult attorney with specific questions)
PRESUMPTION	When vesting (form of ownership) is not specified, tenancy in common is presumed by law	Must be expressly stated and properly formed	Rebuttable presumption that any property acquired by spouses is community property (Consult attorney with specific questions). Must be specified on deed for title insurance purposes	Rebuttable presumption that any property acquired by spouses is community property (Consult attorney with specific questions). Must be specified on deed for title insurance purposes

STATEMENT OF INFORMATION



What's in a name? When a title company seeks to uncover matters affecting title to real property, the answer is, quite a bit. Statements of Information provide title companies with the information they need to distinguish the Buyers and Sellers of real property from others with similar names. After identifying the true Buyers and Sellers, title companies may disregard the judgments, liens or other matters on the public records under similar names. To help you better understand this sensitive subject, the California Land Title Association has answered some of the questions most commonly asked about Statements of Information.

What is a Statement of Information

A Statement of Information is a form routinely requested from the Buyer, Seller and Borrower in a transaction where title insurance is sought. The completed form provides the title company with information needed to adequately examine documents so as to disregard matters that do not affect the property to be insured – matters that actually apply to some other person.

What does a Statement of Information Do?

Every day, documents affecting real property – liens, court decrees, bankruptcies, etc. – are recorded. Whenever a title company uncovers a recorded document in which the name is the same or similar to that of the Buyer, Seller or Borrower in a title transaction, the title company must ask, "Does this document affect the parties we are insuring?" Because if it does, it affects title to the property and would therefore be listed as an exception from coverage under the title policy.

A properly completed Statement of Information will allow the title company to differentiate between parties with the same or similar names when searching documents recorded by name. This protects all parties involved and allows the title company to competently carry out its duties without unnecessary delay.

What types of information are requested in a Statement of Information?

The information requested is personal in nature, but not unnecessarily so. The information requested is essential to avoid delays in closing the transaction.

You will be asked to provide full name, Social Security number, year of birth, birthplace and information on citizenship. If you are married, you will be asked the date and place of your marriage. Residence and employment information will be requested, as will information regarding previous marriages if you are divorced.

You may ask, "Will the information I supply be kept confidential?" The information you supply is completely confidential and only for the title company to use in completing the search of records necessary before a policy of title insurance can be issued.

What happens if a Buyer, Seller or Borrower fails to provide the requested Statement of Information?

At best, failure to provide the requested Statement of Information will hinder the search and examination capabilities of the title company, causing the delay in the production of your title policy.

At worst, failure to provide the information requested could prohibit the close of your escrow. Without a Statement of Information, it would be necessary for the title company to list judgments, liens or other matters as exceptions from coverage, which may affect the property to be insured. Such exceptions would be unacceptable to most Lenders, whose interest must also be insured.

In conclusion

Title companies make every attempt in issuing a policy of title insurance to identify known risks affecting your property and to efficiently and correctly transfer title so as to protect your interests as a homebuyer. By properly completing a Statement of Information, you allow the title company to provide the service you need with the assurance of confidentiality.





THE LOAN ESTIMATE



When you apply for a mortgage, the government requires your Lender to give you a Loan Estimate within three business days of your application. This document sets out all the costs associated with the mortgage, and most experts recommend against committing to a loan before seeing it.

The Loan Estimate is designed to make it easy for you to compare the real costs of competing mortgage offers. So, it pays to take a close look at your Loan Estimate when it arrives. Here are some of the things to look out for.

Interest Rate and Points

The Loan Estimate shows your interest rate and any points you can pay at closing. Make sure you understand that paying discount points will buy you a lower interest rate and lower payments, but it will take many months before the savings make up for the fee.

Loan Costs

The long list of loan costs includes the appraisal fee, credit report fee, application fee, mortgage broker's fee and interest rate lock-in fee, if any. Watch for big differences between Lenders – no fees should vary widely. Also, watch for extra fees applied only by certain Lenders, or missing fees that may not have been included but are sure to appear later. Ask a Lender about any fee that seems out of line.

Title and Transfer Charges

The settlement agent fee, title search and title insurance fees, and government taxes are pretty much standard. All title companies in California must strictly adhere to their filed rates. However, you have the right to shop around and compare prices along with the company's reputation for service and reliability.

Prepaid Interest

One item paid in advance is the interest on the loan for the period before the first payment date. Putting your closing date close to the end of the month can minimize this charge.

Insurance

The Loan Estimate will specify an estimate for homeowner's insurance, but this is a service you can shop for. Mortgage insurance, which protects the Lender in case you should default on your loan, may be charged when your down payment is less than 20 percent of the price of the home and is included on the Loan Estimate. If you are being charged for flood insurance, make sure you ask about the flood analysis that was done on your property.

THE CLOSING DISCLOSURE



The Closing Disclosure must be provided to the Borrower at least three business days before he or she becomes contractually obligated for the loan, which is generally when the final loan documents are signed. The Closing Disclosure is designed to work with the Loan Estimate so Borrowers can easily compare the two documents and ensure they are getting the terms promised to them. However, the Closing Disclosure lists information about loan terms, monthly payments and closing costs that are the actual and final terms of the loan.

Page 1 – Transaction Overview

On page 1, the Closing Disclosure will show the closing date of your mortgage loan and any additional monthly assessments. The final total of costs at closing, which include both closing costs and total cash to close, is listed at the bottom. The closing cost details are listed on pages 2 and 3.

Page 2 – Closing Cost Details

Most of these items are the same as listed in the Loan Estimate, including loan costs, title and transfer charges, prepaid interest and homeowner's insurance. However, you will also see various costs paid by the Seller or others, such as a home

inspection fee and the real estate commission. This is also where Owner's Title Insurance is listed. The Lender's Title Insurance fee only protects the Lender's interest while you have a mortgage on the home. The Owner's Title Insurance protects your interests for as long as you and your heirs own the home.

Page 3 – Calculating Cash to Close

The top of page 3 shows the differences between what was calculated on the Loan Estimate versus the final charges listed on the Closing Disclosure. Details on items such as tax adjustments, excess deposit and other Seller credits are listed on the table below.

Pages 4 and 5 – Additional information

Other required loan disclosures, information about your escrow account, loan calculations and contact information for the Lender, Mortgage Broker, Real Estate Brokers and Settlement Agent are detailed on pages 4 and 5. At the bottom is a place to sign to confirm you have received the Closing Disclosure. It does not obligate you to accept the loan.





WHAT IS ESCROW?

Escrow is the depositing of funds and documents by the parties with a neutral third party for delivery upon completion of the terms of the escrow instruction.

When the parties deliver documents and money to the Escrow Officer to be held for further delivery until certain conditions have been met, we say the documents are held “in escrow.” We may also say the parties have “opened an escrow.” Each of the principals of the escrow (Seller, Buyer, Lender) will give to the escrow-holder written instructions setting out the conditions under which further delivery is to be made. These instructions are usually typed by the Escrow Officer or the Escrow Assistant from oral information supplied by the principals or from a contract signed before they arrived at the escrow office.

The Purpose of an Escrow

The common use of an escrow is to enable the parties in a real estate transaction to deal with each other with less risk, since the escrow holder acts as:

- ▶ Custodian for funds and documents
- ▶ A clearing house for payment of all demands
- ▶ An agency to perform the clerical details for the settlement of the accounts between the parties

Typical Escrow Transaction

Typically, an escrow begins with the Escrow Officer “opening the order for title work.” Based on the information provided, Lennar Title prepares a property report. There are two basic types of property reports: a preliminary report and a commitment. A preliminary report provides the customer with a report of the present status of the property as revealed by the public records filed or recorded in the county in which the property is located. A commitment additionally specifies the requirements that must be met in order to issue the requested insurance. Preliminary reports are more commonly used in California than commitments.

Upon receipt of the preliminary report, an analysis is made to determine the necessary action and documents required to complete the transaction: demands for satisfaction of liens not acceptable to Buyer and/or Lender; documents for recording; and instructions and requirements of the new Lender. In most areas, Buyers’ and Sellers’ instructions are prepared for signature from the information gathered. When all the title and financial requirements are met, and instructions from all parties can be fully complied with, the escrow is ready to close. At that point, the financial settlement takes place, the documents are recorded and the title insurance policies are issued.

WHAT AN ESCROW HOLDER DOES AND DOES NOT DO

The Escrow Holder:

- ▶ Serves as the neutral “stakeholder” and the communications link to all parties in the transaction
- ▶ Prepares escrow instructions
- ▶ Requests a preliminary report to verify ownership, and whether liens and encumbrances must be cleared before close
- ▶ Requests a beneficiary’s statement if debt or obligation is to be assumed by the Buyer, or a demand if the loan will be paid off
- ▶ Complies with Lender’s requirements, specified in the escrow agreement
- ▶ Receives purchase funds from the Buyer
- ▶ Prepares or secures the deed or other documents related to escrow
- ▶ Prorates taxes, interest, insurance and rents according to the instructions
- ▶ Secures releases of all contingencies or other conditions as imposed on any particular escrow
- ▶ Records deeds and any other documents as instructed
- ▶ Requests issuance of the title insurance policy
- ▶ Closes escrow when all the instructions of Buyer and Seller have been carried out
- ▶ Disburses funds as authorized by instructions, including charges for title insurance, recording fees, real estate commissions, and loan payoffs
- ▶ Prepares final statements for the parties accounting for the disposition of all funds deposited in escrow. (These are useful in the preparation of tax returns)

The Escrow Holder Does Not:

- ▶ Offer legal or tax advice
- ▶ Negotiate the transaction
- ▶ Offer investment advice

Lennar Title will be happy to provide additional information regarding our title and escrow services. Please contact your account manager today to learn more.

NORTHERN CALIFORNIA

ESCROW FLOWCHART



SOUTHERN CALIFORNIA

ESCROW FLOWCHART



AVOID PROPERTY TAX PENALTIES

Many tax delinquencies occur during the first year of property ownership. As a new property owner, please be aware of the following:

Name on tax roll and tax bill: The assessment roll from which tax bills are prepared is required by law to list the assessee as of January 1 of that year and property is assessed to the owner as of that date. Therefore, deeds recorded after January 1 would not reflect a change of ownership on the tax rolls until the following year.

Tax bills are mailed only once a year: Tax bills are mailed in the latter part of October, to the owner of the property as of January 1 of that year. If your deed was recorded after January 1 of that year, the tax bills would reflect the previous owner's name and you may not receive a tax bill until the next year, even though as owner you are liable for the taxes. If you do not receive a tax bill by November 15 and if taxes were paid in escrow ONLY through December 31, you should contact the Tax Collector's office for replacement bills.

Due date: Real property taxes are due and payable (and delinquent) the same dates every year, so you may wish to make note of these dates. The first installment is due November 1 and delinquent after December 10. The second installment is due February 1 and delinquent after April 10. The post office cancellation mark is used by the tax collector as the date of receipt of your payments, and they must be postmarked no later than April 10 and December 10.

Failure to receive a tax bill: This does not relieve the owner from the liability to pay taxes, nor does it relieve the imposition of penalties. State tax laws place the responsibility of obtaining a tax bill and making payment timely upon the property owners.

Supplemental property taxes: The property you are purchasing will be reassessed upon the change of ownership. The reassessment will generally be in the form of an increase in taxes based on the new property value. In addition, there may be supplemental taxes assessed against the property, either prior to or after the close of your escrow and any recent change of ownership and/or document or record indicating a work of improvement to the property.

If you require additional information or have questions regarding your property taxes, please contact the Tax Collector's office of the county in which the property is located.

ANNUAL TAX CALENDAR



2nd Installment: January 1 - June 30

Computing delinquent penalties (continued from Dec. 10)



April 10 - June 30: One or both installments delinquent - Add 10% + \$10 fee

► January

1: Assessment due

► February

1: 2nd Installment due

► March

1: Taxes on unsecured due

► April

10: 2nd Installment delinquent

► June

8: Publication date for delinquent taxes

1st Installment: July 1 - December 31

July 1 on: One or both installments delinquent - Add 10% + \$10 fee + \$15 redemption charge + 1.5% per month



December 10 - April 10: 1st installment delinquent - Add 10%

► July

1: Beginning of Fiscal Year to July 1 of following year

1: Properties with delinquent taxes sold to state

1: Owners to be informed of new values

(1st Monday): Assessment Appeal Board

30: Last day to advise owners of new values

► August

Sale numbers assigned for delinquent taxes

► September

Tax rates set

► November

1: 1ST Installment due

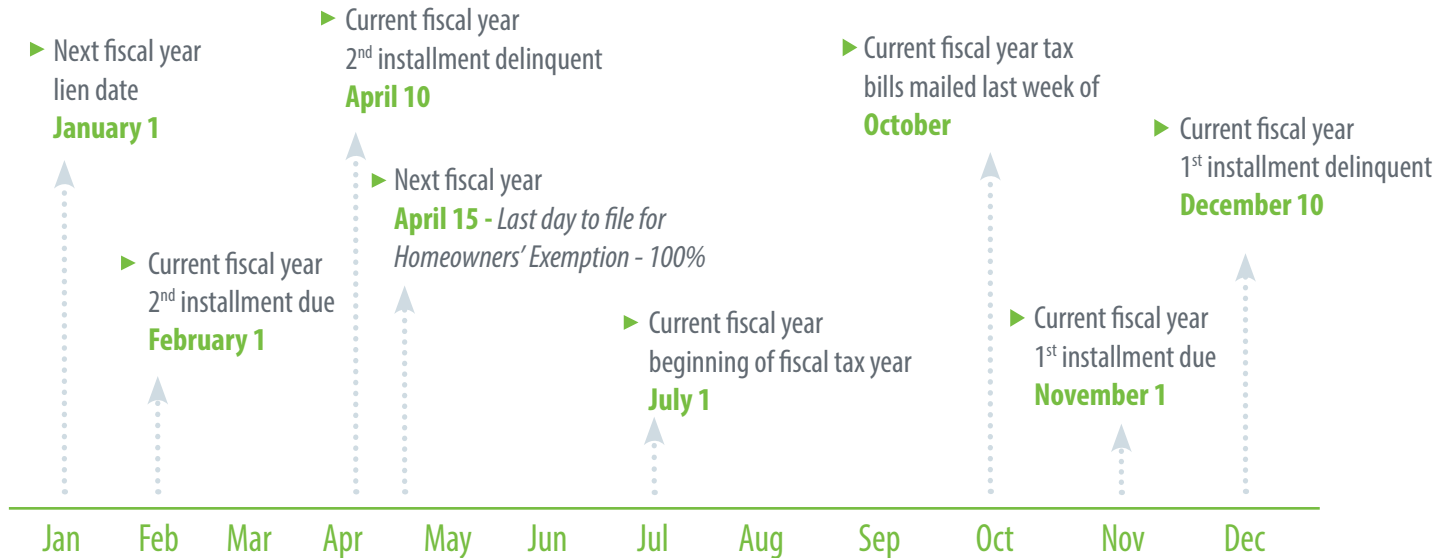
► December

10: 1ST Installment delinquent

*Disclaimer: This information is provided for illustrative purposes only and is not meant to be relied on, nor interpreted, as giving legal/tax advice. Please consult with your independent tax attorney/CPA for further questions.

A GENERAL GUIDE REGARDING PROPERTY TAXES**

Property Tax Timeline



TAX IMPOUND RESERVE SCHEDULE

Closing Month	First Payment	Pay 1 st in Escrow	Pay 2 nd in Escrow	Months required by Lender to impound
January	March		Yes*	5
February	April		Yes*	0
March	May		Yes	1
April	June		Yes	2
May	July		Yes	3
June	August		Yes	4
July	September			5
August	October	?		6
September	November	Yes		7
October	December	Yes		2
November	January	Yes		3
December	February	Yes		4

Notes: Owner must own and occupy property on March 1 to be eligible for applicable exemptions. Penalties for delinquency are 10% on the date of delinquency plus \$10 costs for delinquent second installments. Property may be sold at public auction after five years of delinquency. The above excludes payment requirements for supplement taxes.

*Lender may or may not require payment

**This guide is provided as an example and for illustrative purposes only. It is not meant to be used as tax advice nor legal advice. Please consult with your attorney and/or tax specialist for further information.

SUPPLEMENTAL TAXES*



Sellers and their agents are required to provide prospective Buyers with a Supplemental Property Tax Bill Notice.

This notice requirement is completely different from the Mello-Roos and Special Assessment disclosure requirements. The legislature was very clear that the notice was meant to be just that – a notice that the Buyer will be receiving a supplemental property tax bill. When ownership changes, the respective County Assessor is required to revalue the property pursuant to the California Supplemental Tax law passed in 1983 to provide greater revenue for California schools. It arose as a result of provisions of Proposition 13, passed in 1978, that often created great increases in the assessed values of properties when they changed ownership, yet the tax due on these greater values could not be collected for as many as 15 months.

The reason this notice is important to Buyers is because the supplemental tax bill is sent to the BUYER ONLY, and not the Lender. If the Buyer has arranged for the property tax payments to be impounded, where they are collected and paid by the Lender, these tax bills are not normally included in the impound account and may not be paid by the Lender. The Buyer will have to come up with the money to pay the supplemental tax. If you have an impound account, check with your Lender about whether supplemental taxes can be added to your impound account payments.

Further, with this new notice, the Seller is not required to provide an estimated calculation of what the property tax may be or will be upon the close of escrow.

What are Supplemental Tax Bills?

Prior to the passage of SB 813 (Section 75 et seq. the Revenue and Taxation Code) Statutes of 1983 and as a result of the passage of Article XIII of the State Constitution (Proposition 13), County Assessors rolled back assessments to 1975 levels and could only thereafter be adjusted upward by a maximum 2 percent annual inflation factor as long as the property remained in the same ownership and there was no new construction.

When a change of ownership or new construction did occur, the property would be reappraised to its current full market value, but was not effective until the tax year following the change. This meant that a property that changed ownership after the then-in-effect March 1 lien date of the current tax year could escape reappraisal until the following year. The property would not be subject to higher taxes until the next July 1, following reappraisal.

With the enactment of SB 813, the Assessor is now able to assess property as a result of a change of ownership or new construction at any time during the tax year and issue a Supplemental Tax bill to the owner reflecting the new values and the additional taxes that resulted from the new value.

Since the tax bills are issued based on California's fiscal year that begins July 1, and property taxes are currently issued based on the ownership or condition as of the preceding January 1, it is possible the Assessors will have to adjust the taxes for two fiscal years as a result of a change occurring after January 1 of any year. There would be one for the portion of the fiscal year that began the prior July 1 and one for the fiscal year that will begin the next July 1.

In determining the increase in taxes, the following factors are taken into consideration:

- ▶ What was the value prior to the change of title or completion of improvements?
- ▶ What is the new value?
- ▶ What is the tax rate in effect at the time of the change?
- ▶ How much of the fiscal year remains to the taxes being adjusted?

Consumers should speak with their County Assessor's Office for further inquiry about Supplemental Taxes.

**This guide is provided as an example and for illustrative purposes only. It is not meant to be used as tax advice nor legal advice. Please consult with your attorney and/or tax specialist for further information.*





SUCCESSFUL CLOSINGS

To ensure a smooth completion of your purchase, a few crucial items must be provided prior to your closing date or at your appointment to sign the escrow papers.

- ▶ You must satisfy your Lender's requirements prior to closing.
- ▶ Your Lender will require that the first year of homeowner's insurance premiums be paid into escrow. Provide your Escrow Officer the insurance agent's name and phone number so a copy of the policy can be forwarded to the Lender. If you are purchasing a condominium, verify with your real estate professional whether your insurance is paid via your homeowners' dues.
- ▶ Read through the chart, "Common Forms of Ownership – How to Take Title to Real Property," and decide how you wish to hold title to your new home. Consult an attorney, a tax consultant or other qualified professional if you have any questions.
- ▶ Obtain a cashier's or certified check or wire transfer made payable to Lennar Title in the amount indicated by your Escrow Officer to cover your total Cash to Close*. A personal check will delay your closing because we are required by law to verify "good funds" before disbursing payments from escrow.

You must have government-issued photo identification in order to close. One of these forms must be presented at the escrow signing for the signature to be notarized:

- ▶ Current California Department of Motor Vehicles driver's license
- ▶ Current California Department of Motor Vehicles Identification Card
- ▶ A current passport
- ▶ Any other California-approved identification with a photograph, description of the person, an identifying number and a signature of the person

***Check with your
Escrow Officer if you
have questions about
acceptable forms of
identification.***

***FRAUD WARNING:** Lennar Title will require independent confirmation for any written instructions, amendments, or revisions thereto, from Buyer or Seller relating to wires. If you receive wire instructions from Lennar Title that deviate from wire information you have previously received or been given by Lennar Title, please contact your Lennar Title settlement officer immediately.

TYPES OF CLOSING COSTS



Below is an overview of the types of closing costs you may incur on your loan. Some are one-time fees while others recur over the life of the loan. When you apply for your loan, you will receive a Loan Estimate and a booklet titled, "Your Home Loan Toolkit," explaining these costs in detail. In addition, Lennar Title personnel will review and explain your Closing Disclosure when you are ready for the sign-off.

Loan Origination Fee

A one-time fee payable to the Lender as an expense to obtain the loan.

Points

Lenders can charge a point as an origination fee to cover the cost of making the loan. A discount point also can be paid by the Borrower to lower the interest rate on the loan.

Appraisal Fee

This is a one-time fee that pays for an appraisal, a statement of property value required on most loans. The appraisal is made by an independent appraiser. This fee is normally paid to the Lender as part of the application process for a loan. The contract stipulates the party that bears this expense.

Credit Report Fee

This one-time fee covers the cost of the credit report, which is processed by an independent credit reporting agency. This expense is payable to the Lender to verify your credit rating.

Title Insurance Fees

There are two types of title policies, Owner's Title Insurance that protects the new homeowner, and Lender's Title Insurance that protects the lender against loss due to a defect in the title. These are both one-time fees.

Settlement Agent Fee

The title company may charge fees for a title search, title examination, document preparation, notary fees, recording fees and a settlement of closing fee. These are all one-time charges.

Document Preparation Fee

There may be a separate, one-time fee that covers preparation of the final legal papers, including the note and deed of trust.

Prepaid Interest

Depending on the day of the month your loan closes, this charge may vary from a full month's interest to just a few days' interest. If your loan closes at the beginning of the month, you will probably have to pay the maximum amount. If your loan closes near the end of the month, you will only have to pay a few days' interest.

Mortgage Insurance Premium

Depending on the amount of your down payment, you may be required to pay a fee for mortgage insurance, which protects the Lender against loss due to foreclosure. You may also be required to put a certain amount for mortgage insurance into a special reserve account, called an escrow account, held by the Lender.

Taxes and Homeowner's Insurance

Based on the month you close, property taxes will be prorated between you and the Seller. You will also need to pay an entire year's homeowner's insurance premium up front. In addition, you may be required to put a certain amount for taxes and insurance into a special reserve account (escrow account) held by the Lender.

REAL ESTATE TERMINOLOGY



Every industry has its own terminology. The following are some common real estate terms and their meanings.

Acknowledgment: A formal declaration made before an authorized official (usually a notary public), by the person who has executed (signed) a document, that such execution is his/her own act and deed. In most instances, a document must be acknowledged (notarized) before it can be accepted for recording.

Adjustable rate mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements in a specified index, such as the Fed Funds Rate.

Adjustment period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means the interest rate can change once a year.

Affidavit: A sworn statement in writing made before an authorized official.

ALTA: Abbreviation for the American Land Title Association, the national trade association for the title insurance and settlement services industry.

Amortization: Repayment of a loan in equal installments of principal and interest, rather than interest-only payments.

Annual percentage rate (APR): The total finance charges (interest, loan fees, points) expressed as a percentage of the loan amount.

Assessments: Specific and special taxes (in addition to normal taxes) imposed on real property to pay for public improvements within a specific geographic area.

Assumption of mortgage: A Buyer's agreement to assume the liability under an existing note secured by a mortgage or deed of trust. The Lender must approve the Buyer in order to release the original Borrower (usually the Seller) from liability.

Attorney-in-fact: An agent authorized to act for another under a power of attorney.

Balloon payment: A lump sum principal payment due at the end of some mortgages or other long-term loans.

Beneficiary: As used in a trust deed, the Lender is designated as the beneficiary, i.e. obtains the benefit of the security.

Binder: Similar to a commitment, a binder is an offer to issue a title insurance policy within a specific time frame, and subject to stated conditions.

Cap: The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

CC&Rs: Covenants, Conditions and Restrictions. A document that controls the use, requirements and restrictions of a property.

Certificate of Reasonable Value (CRV): A document that establishes the maximum value and loan amount for a VA-guaranteed mortgage.

Conventional loan: A mortgage loan that is not insured or guaranteed by a governmental agency.

Closing Disclosure: A statement of final loan terms and closing costs, to be compared with the Loan Estimate. It must be provided to the Borrower at least three business days before he or she becomes contractually obligated for the loan (generally when the final loan documents are signed).

Condominium: A form of real estate ownership. The owner receives title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surfaces (walls, floors and ceilings) serve as its boundaries.

Contingency: A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be contingent upon the Buyer obtaining financing.

Conversion clause: A provision in some ARMs that enables a Borrower to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed-rate mortgages. This conversion feature may cost extra.

Cooperative: A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

CRB: Certified Residential Broker. To be certified, an individual must be a member of the National Association of REALTORS®, have at least one year of management experience prior to designation and have earned 12 credits in specified coursework.

Deed: Written instrument by which the ownership of land is transferred from one person to another.

Deed of trust: Written instrument by which title to land is transferred to a trustee as security for a debt or other obligation. Also called Trust Deed. Used in place of mortgages in many states.

Deposit receipt: Used when accepting deposit to bind an offer for property by a prospective purchaser; also includes terms of a contract.

Due-on-sale clause: An acceleration clause that requires full payment of a mortgage or deed of trust when the secured property changes ownership.

Deposit: The portion of the down payment delivered to the Seller or Escrow Agent by the purchaser with a written offer as evidence of good faith.

Easement: The right to use another person's land for a specified purpose, such as public utilities, ingress and egress, etc.

Escrow: A procedure in which a third party acts as a stakeholder for both the Buyer and the Seller, carrying out both parties' instructions and assuming responsibility for handling all of the paperwork and distribution of funds.

Escrow account: Funds retained by a Lender to cover such items as taxes and homeowner's insurance premiums.

Federal Housing Administration (FHA): A federal agency, created by the National Housing Act of 1934, for the purpose of expanding and strengthening homeownership by making private mortgage financing possible on a long-term, low down payment basis. Since 1965, FHA has been part of the Department of Housing and Urban Development (HUD).

FHA loan: A mortgage insurance program with premiums paid by the homeowner to protect Lenders against loss on these higher-risk loans.

Federal National Mortgage Association (FNMA): Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by the VA, as well as conventional home mortgages.

Fee simple: An estate in which the owner has unrestricted power to dispose of the property as he wishes, including leaving by will or inheritance. It is the greatest interest a person can have in real estate.

Finance charge: The total cost a Borrower must pay, directly or indirectly, to obtain credit according to Regulation Z.

Graduated payment mortgage: A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Grant: A transfer of real property.

Grantee: The person to whom a grant is made.

Grantor: The person who makes a grant.

GRI: Graduate, REALTOR® Institute. A professional designation granted to a member of the National Association of REALTORS® who has successfully completed 60 hours of coursework including legal and regulatory issues, the sales process, professional standards and technology.

Home inspection report: A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structure and mechanical systems.

Home warranty plan: Protection against failure of mechanical systems within the property. Usually includes plumbing, electrical, heating systems and installed appliances.

Index: A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.

Joint tenancy: An equal undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.

Lien: A legal hold or claim on property as security for a debt or charge.

Loan Estimate: Provided to the Buyer within three business days of applying for a mortgage loan, it includes the terms of the loan, the projected payments and an estimate of closing costs.

Loan-to-value (LTV) ratio: The relationship between the amount of the mortgage and the appraised value of the property, expressed as a percentage of the appraised value.

Margin: The number of percentage points the Lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Mortgage banker: A company or individual engaged in the business of originating mortgage loans with its own funds, selling those loans to long-term investors, and servicing the loans for the investor until they are paid in full.

Mortgage insurance: Insurance protecting the Lender against loss if the Borrower defaults on the mortgage.

Mortgage life insurance: A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. If the Borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

Negative amortization: Negative amortization occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid balance, which means that even after several payments, a Borrower could owe more than at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

Origination fee: A fee or charge for work involved in evaluating, preparing and submitting a proposed mortgage loan.

Personal property: Movable property; all property that is not real property. Property consisting of chattels as contrasted to real estate; e.g. furniture, car, clothing.

PITI: Principal, interest, taxes and insurance.

Planned unit development (PUD): A zoning designation for property developed at the same or slightly greater overall density than conventional development, sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

Point: An amount equal to 1 percent of the principal amount of the investment or note. Lenders can charge a point as an origination fee to cover the costs of making the loan. A discount point can also be paid by the Borrower to lower the interest rate on the loan.

Pre-payment penalty: A fee charged to a mortgagor who pays a loan before it is due. Not allowed for FHA or VA loans.

Purchase agreement: A written document in which the Buyer agrees to buy certain real estate and Seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract or agreement for sale.

Real property: Land and buildings as opposed to personal property or chattels.

REALTOR®: A real estate broker or associate who is a member of their local and state associations as well as the National Association of REALTORS®.

Recordation: Filing for record in the office of the county recorder.

Regulation Z: The set of rules governing consumer lending, issued by the Federal Reserve Board of Governors in accordance with the Truth in Lending Act.

Tenancy in common: A type of joint ownership of property by two or more persons with no right of survivorship.

Title: Evidence of a person's right or the extent of his interest in property.

Title insurance policy: There are generally two title insurance policies issued at close of escrow, Owner's Title Insurance and Lender's Title Insurance. The Owner's policy is an insurance policy that protects the homeowner from defects in the title to the home, such as a forged deed. The Lender's policy protects the Lender against the same sort of title defects until the loan is paid.

U.S. Department of Veterans Affairs (VA, formerly Veterans Administration): Once an independent agency of the federal government, now a Cabinet-level department that administers a variety of benefit programs designated to facilitate the adjustment of returning veterans to civilian life. Among the benefit programs is the home loan guaranty program designated to encourage mortgage Lenders to offer long-term, low down payment financing to eligible veterans by guaranteeing the Lender against loss on these higher-risk loans.

VA loan: A loan that is partially guaranteed by the U.S. Department of Veterans Affairs and made by a private Lender.





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