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As a Seller, You May Be Asked to “Pay Points”

POINTS

WHAT ARE THEY ALL ABOUT?

Whether called points, discount points, loan brokerage fee or new home loan fee, they are all the same. Points divide the magic behind a large number of home sales. So, since points are such a vital part of selling in today’s market, understanding them is important.

WHAT EXACTLY ARE POINTS?

Points are the money paid to the lender that allow the lender to make loans at a regulated, lower than market interest rate and still obtain the desired rate of return.

WHY NOT JUST RAISE THE INTEREST RATE?

In order to allow more people to buy their own home, the U.S. government established the FHA (Federal Housing Administration) and VA (Veterans Administration) loan programs. The VA program was established to assist out war veterans, and later all veterans, by eliminating the required down payment. The FHA program was developed to assist low to medium income families to purchase a home by reducing the required down payment. Originally, the government, which established the maximum interest that a lender may charge, regulated both programs. However, the VA program was changed after inception and only FHA loans have a regulated maximum interest rate. This maximum rate is often slightly below the going rate for mortgage money and thus the need for points to supplement the difference.

HOW ARE POINTS FIGURED?

One (1) point is one percent (1%) of the loan amount. Five (5) points on a \$60,000 loan would be 5% of 60,000 or \$3,000.

WHO CAN PAY THE POINTS?

Either the buyer or seller can pay all points.

FACTS ABOUT TITLE INSURANCE

Q: I HAVE BEEN HEARING A LOT ABOUT TITLE INSURANCE RECENTLY. EXACTLY WHY IS IT NEEDED?

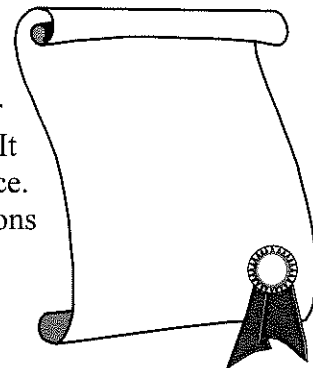
A: Title insurance provides protections against such unforeseen elements as claims against the title of your home that weren't revealed during the title search. Most title hazards will show up during a title company's investigation of public records but even the most exhaustive search may not bring all problems to light. Title insurance is written to provide protection against undisclosed risks.

Q: WHAT ARE SOME EXAMPLES OF TITLE CLAIMS?

A: One would be a claim by a missing heir or a previous owner. Other possible claims can include liens by contractors for unpaid work, a deed conveyed by a married person purporting to be single, boundary disputes or forged deeds. When claims are made, the title insurance company is responsible for satisfying legitimate insured claims or for defending the interests of the policyholder in court.

Q: ARE DIFFERENT KINDS OF POLICIES AVAILABLE?

A: Yes, generally there are two (2) forms. The first is lender's title insurance. It is usually written in the amount of the home loan and protects the lending institution from losses resulting from defective titles. Lending institutions often will refuse to make a loan unless a lender's policy is purchased. Because lender's insurance expires when the mortgage loan is repaid, it does not protect the homebuyer from title defects. For this, you need a form of title insurance called an Owner's Policy. It usually is written in the amount of the real estate purchase price. Coverage continues as long as a property owner, his heirs or persons to whom he may bequeath it, retain an interest in the property.



HINTS TO SELLERS FOR A SMOOTHER SETTLEMENT

There are about 60 people involved in the settlement of a real estate transaction. The following are tips to make the process run smoothly:



- ❖ Call your lender for advice about making your mortgage payment during the month of closing.

NOTE: If you make a payment after the payoff amount is determined, the closing/escrow statement will have to be changed, and your lender may charge a fee for updating the documents to reflect the new payout amount.

- ❖ **If you currently have a FHA mortgage**, 30-day advance notice of mortgage payoff may have to be given to avoid an additional charge of one month's interest. (Some lenders charge a per diem rate, others charge 30 day's interest.)
- ❖ You should be aware that it is common practice to add several days' interest to the amount due as of settlement on your mortgage payoff. Your lender considers the actual payout date to be the day the funds are received. If you have a local lender, it **may** be possible to hand carry the payoff check to save any extra charges for daily interest. Check with your title company about their policy.
- ❖ Lien waivers must be provided at closing for all work done to the property in the previous six months. A lien waiver is a standard form provided by contractors or other workman verifying that they have been paid in full and cannot place a mechanics lien against the property.
- ❖ Be sure to make arrangements to transfer all utilities out of your name as of the date of occupancy. If your home is heated by oil, it may be considered to be personal property and, as such, will be purchased by the buyer at the time of settlement. Please arrange for your vendor to measure the amount of remaining oil and to give you a written statement as to its current value. Bring that statement to closing or escrow.

- ❖ Water and Sewer Bills (if applicable) will be probated on the closing statement. If you have a bill coming due near the date of settlement, please inform your closing/escrow agent as to whether or not you have paid it.

- ❖ The following items are usually pro-rated on the closing/escrow statement:
 - Water/Sewer
 - Homeowner's Association Fees
 - Condominium Association Fees
 - Current Taxes
 - Rents (If applicable)

- ❖ If you will be unable to attend the closing/escrow, all documents may be pre-signed.

- ❖ Some lending institutions have a policy of not releasing real estate tax escrows until after a loan is paid off in full. This may cause a temporary cash flow problem if all your proceeds of sale are needed immediately upon settlement. Call your lender and ask if the tax escrow will be fully credited on the payout statement.

CALCULATING YOUR EQUITY

ESTIMATED SALE PRICE

\$ _____

Subtract Settlement Expenses:

First Mortgage Balance (including second mortgages) \$ _____

Home Equity Line of Credit Balance \$ _____

Prepayment Penalty \$ _____
(Approx. 3 mos. Interest on 80% of mortgage balance)

Interest from the First of the Month \$ _____

Title Insurance \$ _____

Cost of Transferring Title \$ _____
(Fees, Stamps and/or Taxes)

Real Estate Tax Proration \$ _____

Recording Fees \$ _____

Attorney Fees \$ _____

Miscellaneous Fees – (The following items are not costs of the sale but should be reviewed if applicable)

Home Warranty Fees \$ _____

Home Inspection Fee \$ _____

Termite/Pest Inspection Fee \$ _____

Water/Well/Septic Test Fees \$ _____

Radon/Asbestos Test Fees \$ _____

Discount Points (FHA – VA – Conventional) \$ _____

Special Assessments \$ _____

Security Deposits \$ _____

Other Expenses \$ _____

TOTAL SETTLEMENT EXPENSES (Subtracted from Est. Price) \$ _____

ADD CREDIT TAX AND ESCROW (If Applicable) \$ _____

TOTAL ESTIMATED PROCEEDS OF SALE \$ _____