

ESCROW 101





Table of Contents:

Why Choose Us?

What is Escrow?

Role of an Escrow Officer

Avoid Closing Delays

Escrow Red Flags

Closing Costs

Who Pays What?

Role of a Title Company

Vesting: Methods to Holding Title

Tax Information

Legal Issues

Why Choose West Coast Escrow?

A Reputation Built on Exceeding Expectations

- Southern California's largest escrow operation with over 40 branches, more than 30 years of success and a well-established reputation of trust, expertise and performance.
- An industry leader in developing better ways to deliver escrow services through innovation and technology.
- High caliber escrow officers who facilitate smooth closings and our 100% customer satisfaction company focus.
- Fingerprinting and Department of Justice background checks on all employees.
- Creative problem solvers who provide timely, responsive, quality service at competitive rates.
- Meets all California Department of Business Oversight requirements including financial liquidity, net worth and annual audits.
- Our parent company, Realogy, holds the distinction of one of 2018 World's Most Ethical Companies by Ethisphere.
- Not only are our trust accounts and funds on deposit insured by the FDIC but we also have cyber insurance in place to insure against loss by cyber hacking.



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What is Escrow?

Escrow is a service that provides the public with means of protection in the handling of funds and documents.

Escrow enables a Buyer and Seller to transact business with each other through a neutral party, thereby minimizing their risk. In escrow, all parties give their instructions in writing to the neutral intermediary, the “Escrow Holder,” whose duty it is to assure that no funds or property will change hands until all terms have been carried to completion. If one of the parties shown below has not, will not, or cannot provide the documents, reports or funds required the Escrow Holder is unable to consummate the transactions and escrow cannot be closed.



What does Escrow do?

Escrow is the neutral third party that acts as the depository for documents and money in a real estate transaction.

Upon request, escrow provides copies of the real estate purchase contract, earnest money deposit and escrow instructions to the lender at the beginning of the transaction. Additional items may be estimated closing statements, copies of trusts, homeowners' association information and evidence of insurance.

Escrow provides the title company with the buyers' and sellers' completed statements of information and items specified in the preliminary title report as needed to clear title. The title officer reviews them and may request additional items.

Escrow creates the estimated and final closing statements, which are an accounting of the real estate transaction.

Escrow receives, prints and reviews the loan documents, specifically the lender's instructions. A member of our staff will prepare the estimated closing statements and arrange the signing of these and other documents with a notary public. Once signed and returned to our office, we then assist the lender in compiling funding conditions. Escrow is then notified by the buyer's lender when they are ready to release loan funds.

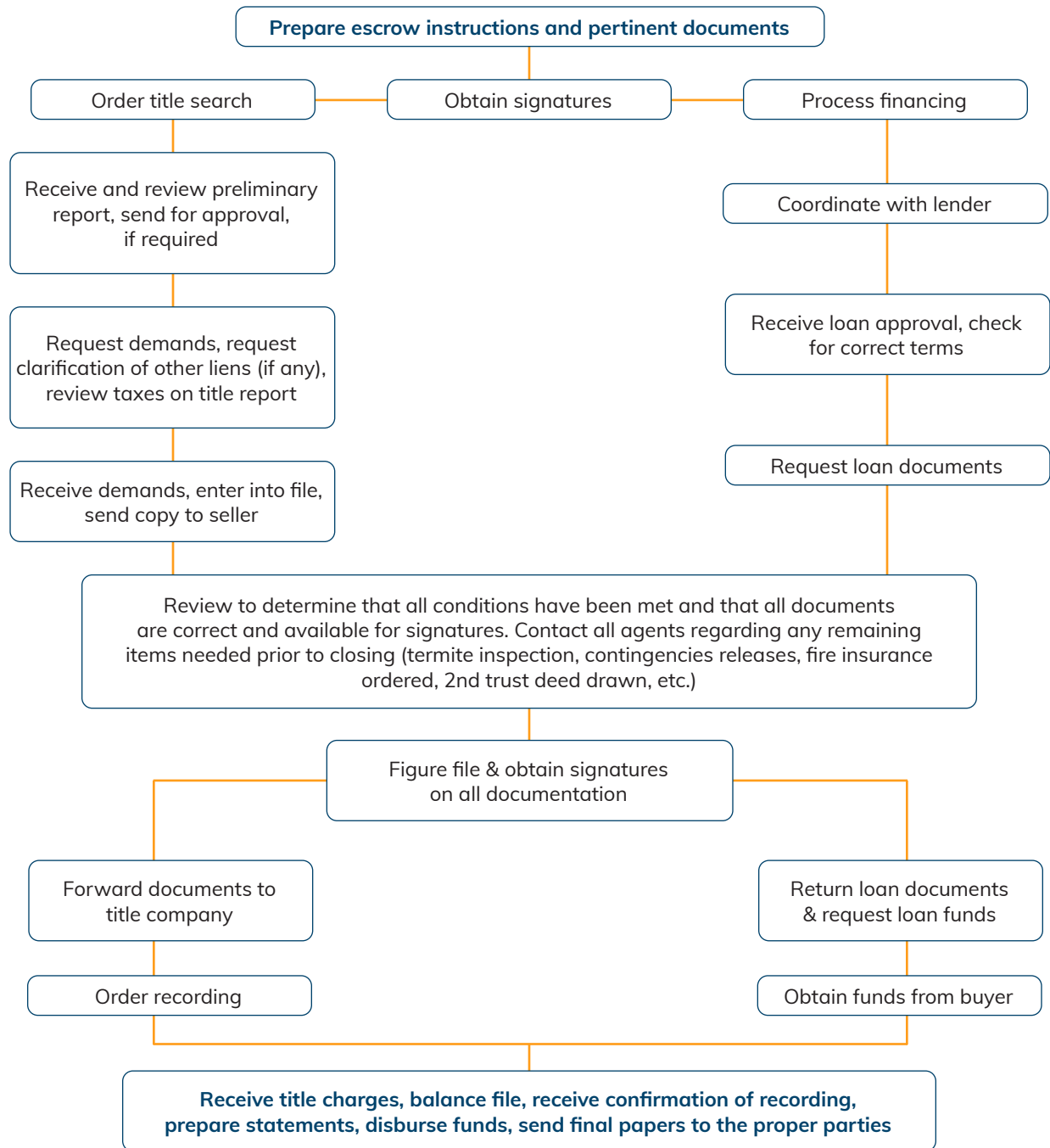
When all conditions of the escrow have been met, including receipt of all necessary and cleared funds, we then notify the title company to release the documents for recording. Upon confirmation of recording, escrow completes the prorations and costs in order to reconcile/balance all funds to be disbursed. The final settlement statements and seller's Closing Disclosure are prepared by escrow.

Some things escrow cannot do or take responsibility for:

- Process the buyer's loan
- Issue or underwrite the title insurance
- Make decisions on the items provided to title and the lender
- Give tax or legal advice
- Mediate or arbitrate disagreements between the parties
- Prepare unilateral amendments or instructions without other parties' knowledge or approval
- Take verbal instructions
- Order inspections, appraisals and reports (*this includes Home Warranty, Zone Disclosures, etc.*)
- Order repairs to be made
- Obtain signatures on disclosures provided by the real estate agents
- Give advice regarding vesting or taking title to the property
- Monitor the contingency period or obtain contingency removal
- Guarantee the correctness or completeness of homeowners' association documents ordered on behalf of the seller
- Delivery of keys to property



The Escrow Process



The Escrow Officer

What is the role of the escrow officer?

In accordance with the escrow instructions, the escrow officer will process the escrow and handle the funds and documents from start to finish. As stated above, the instructions outline all of the duties of the escrow officer. An escrow officer is responsible for the preparation and processing of a significant amount of paperwork. That paperwork includes, but is not limited to, escrow instructions and amendments, grant deeds and quitclaim deeds, estimated and final closing statements as well as HUD-1 statements required by lending institutions. Escrow officers also facilitate the request, delivery, and signing of documents, not only for the benefit of the principals, but for the real estate brokers, the applicable title company, and lending institution. The escrow officer must also comply with local, county, State and federal requirements relative to required documentation and fees. If the buyer is obtaining financing, the escrow officer will work with the mortgage broker and/or lender to help move the loan approval and underwriting process along, satisfy the lender's conditions, and will likely coordinate the loan document sign-up. Additionally, escrow officers will request closing funds, authorize the release and recording of documents, and are the primary party responsible for all of the accounting of an escrow transaction and disbursement of funds held in the escrow. Another large part of an escrow officer's job is requesting payoff demands and lien releases, and working to ensure that free and clear title will be conveyed to the buyer and in compliance with the lender's instructions, if applicable. In some ways, the escrow officer has one of the most difficult jobs in a real estate transaction as he or she is the neutral party to which all buyers, sellers, borrowers, lenders, real estate brokers, and title companies look to for the proper, efficient and effective administration of an escrow. An escrow officer is the communication link for all of the parties and the central place where buyers, sellers, real estate and mortgage brokers, and lenders go for updates, answers, and problems. Finally, it is the escrow officer's duty to ensure that all of the conditions of the escrow have been met before closing, where documents can be released and/or recorded, and funds transferred and/or disbursed.

It is also important to understand that because the escrow officer is a neutral third party, he or she does not represent or favor any one party to an escrow, and is instead an agent of the principals to the escrow. An escrow officer's role as a disinterested and neutral third party is very clear. For that reason, an escrow officer will never be involved in the negotiation of the contract or advise the principals with respect to the same.



Avoid Closing Delays:

5 of the Best Strategies

There is nothing more exasperating for the parties to a real estate transaction than an unexpected closing delay. The buyer wants to move in, the seller wants to move on – and the real estate agents want their commission checks.

Even with the best planning, no one can completely eliminate the possibility of glitches occurring along the way. But here are five steps that can minimize the chances of a glitch or lessen its impact if one occurs:

1. Set a reasonable closing date

You can always close 'early' if everything proceeds without a hitch, but adding a few days to the desired closing date can do much to alleviate frustration. A rule of thumb under normal circumstances might be 45 days to close, but this could vary from state to state.

2. Submit HOA clearance letters early

TRID (the updated federal regulation in effect since October 2015) requires lenders to give borrowers an accurate accounting of their transactions, including HOA fees and costs, at the beginning and end of the loan process. So if the home in question has a homeowner's association, a copy of the HOA clearance letter should be submitted to the lender as soon as possible.

3. Urge homebuyers to review quickly

TRID requires lenders to provide Closing Disclosures to their borrowers three business days before closing, but any issues raised can require a new review period and several days' delay. Homebuyers should be urged to review the forms on the very first day they receive them.

4. Discuss any issues right away

Waiting until closing to raise a concern, or just assuming it will be addressed, can almost always ensure a delay. Both buyers and sellers should be alerted to immediately report to their agents and escrow company anything confusing or inaccurate in the documents.

5. Quickly confront walk-through issues

Since walk-throughs are typically held a few days before closing, agents should encourage their buyers to recognize and confront any possible issues as soon as possible. Small things, like a leaky faucet, can be quickly resolved. But anything significant that affects the purchase price, and consequently the loan terms, can require new forms and a new review period.

Steps to Avoid Delays & Problems

in Closing Short Sale Transactions

- Sellers and Buyers should confirm that all completed and signed escrow paperwork and any additional forms are in escrow before close.
- Agents should notify escrow of any changes to the contract; more than likely a revised short sale approval letter will be necessary. Short Pay lender must approve all credits or changes to the contract.
- Once you receive the Lender's short pay letter, make sure escrow has been provided with it as soon as possible. It will be required by title at the time of closing.
- Buyers should have their loan paperwork in place and be in a position to execute loan documents well before the close of escrow.
- Buyer's Mortgage Broker/Lender should be in position to fund the loan with a 2-3 day pad for any last minute funding conditions that may arise, so that short pay approval does not expire.
- Buyers must have their fire insurance ready. Make sure that the escrow officer has all of the information to contact the Buyer's insurance provider in order to prevent delays. If it is a condominium, Buyer should ask the Mortgage Broker/Lender if HO-6 insurance is needed; most lenders require this as a condition of funding the loan.
- Buyers must have their closing funds available as good funds and be prepared to wire into escrow 72 hours before the close of escrow.
- If the Seller's have transferred title to the property into their trust but they borrowed as individuals, please find out if the short pay Lenders may require them to transfer out of trust and sell as individuals. This requires an additional deed and causes extra time and fees that will need to be reported to the Short Pay Lender via the HUD.
- Typically money can not be released prior to the close of escrow.
- Escrow cannot give legal or tax advice. It is advisable that you have your client consult outside assistance.



Red Flags:

Don't let them delay your closings

As every real estate professional knows, there are many moving parts to every transaction. But once the contracts are signed, the inspections are done, the repairs have been made to the buyer's satisfaction, and the loan has been approved, the last thing anyone wants are escrow issues that delay the closing.

As your escrow partner, we do everything in our power to move the process along smoothly and facilitate a timely closing. As the other half of the partnership, we encourage you to refer to this checklist to help ensure against last minute hang-ups:

- Will any of the principals be using a **Power of Attorney**?
- Are any of the vested owners **deceased** or **incapacitated**?
- Have any of the principals recently filed for **bankruptcy**?
- Has there been a change in **marital status** of either buyers or sellers?
- Is the property currently vested in a **trust**?
- Is there a **life estate** in place?
- Does the transaction involve a **short sale**?
- Are there any **liens or judgments** against the property owners?
- Is there a **foreclosure** in progress?
- Have any **easements** been obtained or given since the purchase of the property?
- Are there **encroachments**?
- If there is a **homeowner's association**, and if so, are the dues current?

The sooner we are made aware of any red flags that could potentially cause a delay, the faster we can seek and find the necessary solutions. Please call your escrow officer regarding any questions or concerns.

Red Flags to Potential Fraud

As Here are some suspicious activities that should alert closing and settlement agents to potential mortgage fraud:

- Power of Attorney used and the attorney in fact is a party to the transaction who will financially benefit (other than a spouse or immediate family member who resides in the property)
- Recent changes of title where new owner is now selling the property
- Double escrow concurrent back-to-back transactions with deed transfers to intermediate straw buyers needed to facilitate the flip
- Funds to closing not coming from the buyer, but some other party involved in the transaction
- Payouts to third parties especially parties not on the lender's specific closing instructions
- Payouts to contractors and repair companies—especially when not on closing instructions
- “Unusual” sales contract addendums with terms/conditions and/or payouts that are not the norm for the local market (this may not have been provided to the lender as a material omission)
- Buyer is a “real estate investor” where the seller is controlling all aspects of the transaction and who may or may not realize he is acting as a straw buyer (e.g. when speaking to the buyer in coordinating a closing, do they understand the transaction?)
- Recently recorded liens, often involving disbursement being paid to a participant in the transaction.



Closing Costs

Definitions of What the Costs are

COST	CHARGED BY	DESCRIPTION
ESCROW FEES		
Escrow Fee	Escrow; to buyer and seller	Covers time and effort, as well as standard costs, incurred in processing the escrow.
Demand Fee	Escrow to seller	Charge to request a statement and process involved in getting a payoff figure to escrow on the outstanding amount of the current loan. One demand fee per loan.
Process HOA docs and Transfer Fee	Escrow; to buyer and seller	Fee for processing documents to assign membership for HOA and copying all governing documents, if necessary. NOTE: Sellers are required to pay for the HOA charge to provide a copy of the governing documents by Civil Code Section 4525.
Document Fee	Escrow	Covers the expense for drawing legal documents for official records.
Loan Tie-in Fee	Escrow	Covers the cost of all processing required to meet new lender requirements, including downloading and printing loan documents.
Overnight Mail or Courier	Overnight Mail Service Vendor	For document packages that require expedited delivery.
TITLE FEES		
Owner's Title Policy	Title Company	Fee to issue an owner's title policy. Calculated using the sales price. May be reduced if home was purchased or refinanced in the last 5 years—usually paid by seller.
Lender's Title Policy for Buyer's Loan	Title Company	Title policy issued to lender to cover the amount of the loan. Based on the loan amount. Negative amortization loans may require a slightly higher amount of insurance—usually paid by buyer.
Sub-Escrow Fee	Title Company; split between buyer and seller	Fee to administer the payoff of loans or property taxes of the seller and collection of funds from the new lender.
Documentary Transfer Tax	County Recorder's Office (some cities charge an additional transfer tax)	Fee charged on all properties that transfer title—based on sales price.
Record Release/Reconveyance	County Recorder's Office	Charge to record the release/reconveyance.
Wire Handling Fee	Banking Institution	Charge to wire funds to and from escrow, seller, lender, etc.
Electronic Recording (shipping & handling)	County Recorder's Office	Charge to electronically record the documents.
Record Grant Deed	County Recorder's Office	Charge to record the Grant Deed.
Record Trust Deed	County Recorder's Office	Charge to record the Trust Deed.
Messenger	Messenger Service	Charge to special messenger documents during the course of escrow. Fee varies with distance.
Lender's Endorsement	Title Company	Charge for endorsements required by lender to cover "outside the normal" risk circumstances.

Closing Costs (cont.)

Definitions of What the Costs are

COST	CHARGED BY	DESCRIPTION
LENDER FEES		
Origination Fee	Lender	Charge for lending money as a point or percentage of the loan amount.
Documentation Preparation	Lender	Paid to Lender for preparation of final loan documents.
Tax Service	Tax Service	Fee charged to buyer to have lender notified in case of non-payment of taxes.
Flood Certificate	Lender	Fee for investigation to determine if the subject property is located in a flood hazard zone.
Underwriting	Lender	Fee to direct lender for the process of reviewing the application and approving the loan.
Tax Impounds	Lender	Collected to create an impound reserve account for the lender to pay property taxes twice a year, if required by the lender or requested by the borrower.
Insurance Impounds	Lender	2 months Hazard Insurance collected for impound reserve account, if required by the lender or requested by the borrower.
Appraisal	Fee Appraiser	Paid directly to Fee Appraiser for appraisal of property.
Credit Report	Lender	Paid to Credit Bureau for report containing 3 repositories—TRW, TU and Equifax.
Processing	Lender	Paid to mortgage broker for processing loan package from application to closing.
DISBURSEMENTS		
HOA Transfer Fee	HOA Management Group	To transfer ownership and handle new accounting set-up.
HOA Dues	HOA Management Group	Paid through month of closing.
Fire Insurance	Insurance Agency	1 year prepaid premium for Homeowner's Insurance.
Notary	Notary	Charge to seller for notarizing signature on grant deed or other documents. Buyers need notary for signing loan documents.
PAYOFFS		
Recording Fee	Existing Lender	Charge for having reconveyance recorded.
Statement/ Forwarding Fee	Existing Lender	Charge for issuing a payoff statement.
CREDITS AND PRORATIONS		
HOA Dues	Seller to Buyer	Calculated from date of close of escrow through month-end.
County Property Taxes	Seller to Buyer	Calculated from date of closing through end of period paid for. (e.g., COE = 5/30. Calculate as 5/31—6/30 times the cost of taxes per day)



Who Pays What?

A Closer Look at Closing Costs

The **SELLER** can generally be expected to pay for:

- “Owner’s” title insurance policy premium
- Escrow fee
- Real estate commission
- Document preparation fee for deed
- Documentary transfer tax (typically \$1.10 per \$1,000.00 of sales price)
- City transfer or conveyance tax (defined by contract)
- Pay off all loans secured against the property
- Interest accrued to lender being paid off, statement fees, reconveyance fees and prepayment penalties
- Home warranty (if defined by contract)
- Any judgments, tax liens, etc., against the seller
- Tax proration (for any taxes unpaid at time of transfer of title)
- Any unpaid homeowner’s association dues
- Recording charges to clear all documents of record against seller
- Any and all delinquent taxes
- Notary fees
- Homeowner’s association documents as defined by Civil Code Section 4525
- Homeowner’s association transfer fee (as defined by contract)
- Messenger fees (if incurred on seller’s behalf)
- Any other negotiated items per the contract

The **BUYER** can generally be expected to pay for:

- “Lender’s” title insurance policy premium
- Escrow fee
- Document preparation (if applicable)
- Notary fees
- Recording charges for all documents in buyer’s name
- Tax proration (from date of acquisition)
- All new loan charges (except those required by lender for seller to pay)
- Interest on new loan from date of funding to 30 days prior to first payment date
- Inspection fees—roofing, property inspection, geological, etc. (as defined by contract)
- Home warranty (if defined by contract)
- Fire insurance premium for the first year
- Messenger fees (incurred on buyer’s behalf)

Please Note: All of the Sellers and Buyers Closing Costs listed are negotiable and are defined by the contract between the two parties.

The Role of a Title Company

A title company is a key player in the home buying/selling process. It is a neutral third party that is there to help both the seller and the buyer complete the sale of the real property. They handle the transfer of documents and money, as well as coordinate the agents, lender and all other parties that may be needed in the transaction. They handle the closing, or the final transfer, (which includes obtaining instructions from all parties), recording the documents, and providing a paper trail of the entire process. They provide the new owner and lender with policies that give peace of mind for the most important purchase in many buyers' lives.

In California, the real estate agent listing the house is typically the one who contacts the title company, although occasionally the buyer or lender may take the first step. Sometimes the title company is contacted before there is a buyer and the real property is just being listed. Obtaining a Preliminary Title Report (PTR) early is useful for two reasons. First, the PTR will reveal any title problems or defects early in the process so the parties can work towards resolution of the issues. Second, it can facilitate an expedited closing as the search process of checking the property and owners has been completed.

A title company does a search to make sure the property is owned by the party who claims to be the owner, and that no other party can assert a claim of ownership. The search process is performed for the following real property transactions including sales, refinances, second mortgages, home equity loans, construction, and foreclosure. The title company will search all property records to confirm the history of ownership. It will search for any financial claims, e.g. liens or deeds of trust against the property.

What are some of the issues that may arise in a title search?

LIENS: Liens can pop up unbeknownst to the owners. A lien is a legal hold or claim on property as security for a debt or charge. Common lien examples are: Unpaid city/county/state taxes; child or spousal support; or equity judgments created through divorce proceedings

and abstracts of judgments. If real property is being sold from the estate of a deceased person, or through a bankruptcy, there are usually additional legal requirements for the sale to be completed.

CLERICAL MISTAKES: Clerical mistakes, known as Scrivener's Errors (a mistake by the preparer of a document), can also be found and the requirements needed to clear title may be made by the title company.

FRAUD AND FORGERY: A search process is also the time that fraud and forgeries are most likely detected since close attention is given to the documents recorded that pertain to the property and owners. If documents appear to be irregular, fraudulent or forged, it is discovered in the title search.

Once the title is clear and ownership confirmed, the title company will organize the closing. Once closed, it will issue title insurance to the new owner(s) and lender(s). The title policy will protect the insured against any claims against the property pursuant to the coverage of the policy. Unlike auto insurance which is strictly required to operate a vehicle, title insurance is not mandatory, however the requirement for title insurance is built into most sales contracts and almost all lenders require title insurance to cover their interest in the property. For the buyer to have protection, they need an owner's policy which assures the owner that they are purchasing property from the party that has the authority to sell it and that there aren't any issues other than what has been disclosed that would challenge or diminish their ownership and enjoyment of their new property. Protection for the lender is provided through the Lender's Policy. The loan policy is not a protection for the owners, just the lender.

So, does your title company matter? Absolutely! A local and experienced title company like Equity Title Company can make a huge difference in your sale, purchase, or loan transaction. Local companies with local experience and know-how can make the difference between a failed transaction and a closed one. Equity Title Company has local escrow and title people in your area ready to close your important transaction.



Vesting:

Methods of Holding title

	TENANCY IN COMMON	JOINT TENANCY	COMMUNITY PROPERTY	COMMUNITY PROPERTY (with right of survivorship)
Parties	Two or more persons ¹ (may be spouses or domestic partners ²).	Two or more persons ¹ (may be spouses or domestic partners ²).	Married couples or domestic partners.	Married couples or domestic partners.
Divisions	Ownership can be divided into any number of interests, equal or unequal.	Ownership interests must be equal.	Ownership interests must be equal.	Ownership interests must be equal.
Creation	One or more conveyance (Law presumes interests are equal if not otherwise specified).	Single conveyance (creating identical interests). Vesting <u>must specify</u> joint tenancy.	Single conveyance or presumption from marriage or domestic partnership.	Single conveyance and spouses or domestic partners must indicate consent which can be on deed.
Possession & Control	Equal	Equal	Equal	Equal
Transferability	Each co-owner may transfer or mortgage their interest separately. ³	Each co-owner may transfer his/her interest separately but tenancy in common results. ^{3 & 4}	Both spouses or domestic partners must consent to transfer or mortgage.	Both spouses or domestic partners must consent to transfer or mortgage.
Liens Against One Owner	Unless married or domestic partners, co-owner's interest not subject to liens of other debtor/owner but forced sale can occur. ⁴	Co-owners's interest not subject to liens of other debtor/owner but forced sale can occur if prior to co-owner's, debtor's death.	Entire property subject to forced sale to satisfy debt of either spouse or domestic partner.	Entire property subject to forced sale to satisfy debt of either spouse or domestic partner.
Death of Co-Owner	Decedent's interest passes to his/her heirs by will or intestacy.	Decedent's interest automatically passes to surviving joint tenant ("Right of Survivorship").	Deceased's 1/2 interest passes to surviving spouse or domestic partner unless otherwise devised by will.	Decedent's 1/2 interest automatically passes to surviving spouse or domestic partner due to Right of Survivorship.
Possible Advantages / Disadvantages	Co-owner interests may be separately transferable. ³	Right of Survivorship (avoids probate). May have tax disadvantages for spouses.	Qualified survivorship rights. Mutual consent required for transfer. Surviving spouse or domestic partner may have tax advantage.	Right of Survivorship. Mutual consent required for transfer. Surviving spouse or domestic partner may have tax advantage.

¹ "Persons" includes a natural person as well as a validly formed corporation, limited partnership, limited liability company or general partnership. Trust property is vested in the trustee (usually a natural person or corporation).

² For domestic partners meeting California statutory requirements, benefits are same as community property except certain tax benefits may not be available. NOTE: Two unrelated persons who are either (a) same sex, or (b) opposite sex if they meet age or disability requirements, may be domestic partners provided that they are not then married or in a domestic partnership and comply with other statutory requirements.

³ Transfers by married persons or domestic partners may require a quitclaim deed from spouse/partner for title insurance purposes.

⁴ If co-owners are married or domestic partners, property may be subject to legal presumption of "community property" requiring consent of both spouses/partners to convey or encumber title notwithstanding vesting as "joint tenancy".

Property Tax Calendar

JANUARY 1

Taxes become a lien on all taxable property at 12:01 a.m. First day to file affidavits, claims for exemptions for real property and application for “decline-in-value” reassessment (Proposition 8).

FEBRUARY 1

Second installment* of real estate taxes is DUE (DELINQUENT after 5:00 p.m. on April 10th).

FEBRUARY 15

Deadline for timely filing of affidavits and claims for exemptions (late after 5:00 p.m.; a postmark before midnight is considered timely) for real property, including Veterans and Disabled Veterans. Last day to file for the Homeowners’ Exemption claim (late after 5:00 p.m.; a postmark before midnight is considered timely) to receive the maximum exemption (\$7,000 of assessed value).

APRIL 10

SECOND INSTALLMENT* OF REAL ESTATE TAXES BECOMES DELINQUENT AFTER 5:00 p.m. (a postmark before midnight is considered timely).

MAY 15 - DECEMBER 10

Period for filing affidavit and claim for property tax postponement with State Controller.

JUNE 1

Mailing of delinquent tax bills for current year and supplementals.

JUNE 30

Last day of the property tax year (fiscal year).

JULY 1

First day of the property tax year (fiscal year). First day affidavit and claim for homeowner or renters assistance may be filed with the State Franchise Tax Board.

OCTOBER 1

Beginning day of annual secured tax bill mailing (by Treasurer and Tax Collector).

OCTOBER 15

Last day affidavit and claim for homeowner or renters assistance may be filed (late after 5:00 p.m.) with the State Franchise Tax Board.

OCTOBER 31

Last day of annual secured tax bill mailing (by Treasurer and Tax Collector).

NOVEMBER 1

The first installment* of real estate taxes is DUE (DELINQUENT after 5:00 p.m. on December 10th).

DECEMBER 10

FIRST INSTALLMENT* OF REAL ESTATE TAXES BECOMES DELINQUENT AFTER 5:00 p.m. (a postmark before midnight is considered timely). Last day to file late Homeowners’ Exemption to receive 80% of the exemption, late Veterans’ Exemption to receive 80% of the exemption, late Disabled Veterans’ Exemption to receive 90% of the exemption and to terminate Homeowners’, Veterans’, and Disabled Veterans’ exemptions.

DECEMBER 31

Last day to file application for “decline-in-value” reassessment (Proposition 8) with the tax assessors’ office. This should be done if you feel the market value of your property is below your Proposition 13 value.

* The property tax year (fiscal year) runs from July 1st to June 30th. Property is taxed as of January 1st for payment in the following fiscal year.



Impounded Property Taxes

If your buyer is obtaining a new loan, they will need to choose whether or not to have their property taxes impounded. Impounded taxes are collected monthly with the monthly mortgage payment. The lender then assumes the responsibility for paying the taxes from the funds collected.

Depending on the time of year in which the escrow closes, the lender may collect a small amount or a very large amount of the estimated monthly tax amount. The monthly tax amount is determined by what the lender anticipates the tax bill to be after reassessment. Typically, this could be anywhere from 1.25% to 1.75% of the purchase price. Below is a table with the number of months of tax impounds the lender will typically require. Please have your buyer check with their lender to verify the amount of taxes their lender will need to collect for their impound account.

CLOSING MONTH	FIRST PAYMENT	IMPOUNDS REQUIRED	TAX STATUS
January	March	1 month	All paid
February	April	2 months	All paid
March	May	3 months	All paid
April	June	4 months	All paid
May	July	5 months	All paid
June	August	6 months	All paid
July	September	7 months	All paid
August	October	8 months	All paid
September	November	9 months	All paid
October	December	4 months	1 st half paid
November	January	5 months	1 st half paid
December	February	6 months	1 st half paid

It is important for your buyer to understand that their impounded taxes **WILL NOT** be used by the lender to pay for a Supplemental Tax Bill. Supplemental taxes must be paid by the buyer directly to the County Tax Collector.

If your buyer is not having their tax payments impounded by the lender, please be sure the seller provides their tax bill to the buyer and that the buyer understands that the tax payments are their responsibility despite the fact that the bill still has the seller's name on it. Once the taxes are paid and reassessment has been completed, the taxes will show in the buyer's name.

Supplemental Property Taxes

What are supplemental taxes?

Supplemental property taxes were signed into law in 1983. The tax revision was intended to drive tax dollars to aid California's schools. They are designed to be a "catch up" tax, enabling the tax collector to collect additional tax calculated from the date a homeowner takes title to the property until the new, reassessed tax period begins. If the value of the home is greater than the existing tax valuation, a supplemental bill will be issued for the tax on the difference.

What triggers a supplemental tax bill?

A change in ownership or the undertaking of new construction (e.g., an addition or remodel) will trigger the tax assessor to reassess your property. The taxes become a lien against the property as of the date of ownership change or the date construction is completed.

How are supplemental taxes billed?

Supplemental taxes are billed separately from regular property taxes. In most cases, you will only receive one supplemental tax bill which will be divided up into two installments. The first installment will be due shortly after you receive the bill, and the dates may or may not coincide with your regular tax bill. They do not replace your regular tax installments and you should expect to receive regular bills for your standard property taxes separately.

Will my impound account with my lender cover these taxes?

You should check with your new lender as soon as you receive your supplemental tax bill. Almost always, the supplemental taxes will not be covered by your impound account, but only your lender can advise you on that.

Can I challenge the assessed value of my property?

Yes, you will be sent a notification of the new assessed value of your property, and you may file an appeal with the county tax assessor at that time.



Change of Ownership

Tax Assessment Reappraisal

Joint Tenancy

Under this method of holding title, each owner holds the property jointly with the other owners. Upon the death of one owner(s), the property passes to the surviving joint tenant(s). For assessment purposes, the termination of joint tenancy (other than husband/wife or parent/child transfers) causes a reappraisal.

Tenancy in Common

Under this method of co-ownership, each owner owns a specific percentage of the property. At death, a tenant in common passes their interest in the property at their discretion. The transfer of a tenancy in common interest will cause a reappraisal, unless it is a husband/wife or parent/child transfer, but only for the percentage of interest in the property that has been transferred.

Legal Entities (Partnerships & Corporations)

Under this method, a reassessment occurs when there is a change in the controlling interest of the corporation or partnership. A controlling interest is defined as an interest greater than 50%. These changes in ownership are monitored and reported by the State Board of Equalization.

Death of Real Property Owner

Death is considered a change of ownership and the property can be reassessed as of the date of death for property tax purposes, unless the property is held in a Trust.

Trusts

In this method of holding title, there is only a reassessment if there has been a change of beneficial interest or control. For example, revocable trusts (i.e. living trusts) are not subject to reappraisal. Irrevocable trusts are reappraisable if the recipient or beneficiary is not the current owner.

Methods of Holding Title

A change in the method of holding title in itself does not cause a reappraisal. For example, if two equal partners incorporate, and each owns 50% of the corporate stock, no appraisal is required. In this case, the proportional ownership has not changed, only the method of holding title.

Summary

Under Proposition 13, a reassessment takes place upon a change of ownership or transfer of title. It is always best to review any proposed ownership change with the Assessor's office in advance to determine any possible property tax consequences.

NOTE: For transfers that are not required to be reappraised, taxpayers should have their escrow and or title company note on the document the appropriate exemption recital, i.e. parent to child. This information may also be included on the Preliminary Change of Ownership Report (PCOR) which is filed with the deed. After the deed is recorded with the County Recorder, a Change of Ownership Statement (COS) form is mailed to the new owners within 30 days.

2018 Tax Law Reform

Comparing Prior Law vs. New Law Provisions Affecting Real Estate Owners and Agents

There have been significant changes to the federal tax laws beginning in 2018, many of which affect the real estate industry. The California Association of REALTORS® has published the following chart as a helpful comparison of the changes of interest to homeowners and real estate professionals.

	Prior Law	New Law
Mortgage Interest Deduction	Capped at \$1,000,000	Capped at \$750,000
State and Local Tax Deduction	Unlimited	The total of income, sales and property tax deductions is capped at \$10,000
Capital Gains Exemption on Sale of Primary Residence	Exclusion of up to \$250,000 (\$500,000 if married) of gain realized on sale or exchange of principal residence if lived in for 2 of last 5 years	No change
1031 Like-Kind Exchanges	Applied to all classes of property (e.g., personal and real)	Limits non-recognition of gain to real property
Personal Deduction	Allowed	Eliminated
Standard Deduction	\$6,350 individual and \$12,700 if married	\$12,000 individual and \$24,000 if married
MID for second Homes	Capped at \$1,000,000	Capped at \$750,000
Home Equity Loan Deduction	Capped at \$100,000	Not deductible unless the proceeds are used to substantially improve the property
Moving Expense Exclusion and Deduction	Deduction for moving expenses incurred in connection with change in work place	Eliminated except for members of armed forces on active duty that move pursuant to military orders
Child Tax Credit	\$1,000 for each child	\$2,000 for each child
Deduction for Qualified Business Income of Pass-Through Entities including independent contractors	None	20% deduction of taxable income phased out above \$157,000 (\$315,000 if married) for brokerage services
Depreciation Recovery Period for Real Property (Residential Rental)	Recovery period is 27.5 years	No change
Depreciation Recovery Period for Real Property (nonresidential)	Recovery period is 39 years	No change
Depreciation Recovery Period for Real Property (leasehold improvements)	Recovery period is 15 years	No change

Document updated 12/28/2017

Source: California Association of REALTORS®



California Real Estate

Withholding for Individuals

- California Real Estate Withholding is prepayment of estimated income tax due the State of California on gain from the sale of California real property. If the amount withheld is more than the income tax liability, the state will refund the difference when you file a tax return for the taxable year.
- It is not an additional tax on the sale of the real estate. It is your obligation to file a California tax return, pay any tax due and claim any real estate withholding payment on your California tax return.
- The standard withholding is 3.3% of the purchase price of the property, in accordance with California Revenue and Taxation Code Section 18662.

Form 593-C will be provided with your escrow instructions. The seller should carefully fill out the form to see if any exemptions apply. Generally speaking, the following are exemptions from withholding:

- The sale of your principal residence.
- Properties with a total sales price that does not exceed \$100,000.
- The property is being foreclosed upon (sold pursuant to a power of sale under a mortgage or deed of trust, sold pursuant to a decree of foreclosure, or by deed in lieu of foreclosure).
- The seller is a bank acting as a trustee other than a trustee under a deed of trust.

Are there any exceptions?

- Yes, there are exceptions, and you should review them on the Franchise Tax Board's website at ftb.ca.gov.
- In some cases, you may estimate the actual gain on the sale of the property and qualify for a lesser amount of withholding. Use form 593-E, Real Estate Withholding–Computation of Estimated Gain or Loss, to determine your loss or gain on the sale or to calculate an alternative withholding amount.

IMPORTANT NOTE:

- A seller who does not have a social security number or ITIN (Individual Taxpayer Identification Number) is subject to withholding regardless of any possible exemptions to withholding.

Certifications that Fully Exempt State of California Franchise Tax Board Withholding

As a general rule, the following exemptions apply to the CalFIRPTA withholding:

Sale of a principal residence

- The property must qualify as a principal residence under IRC Section 121. Generally, the seller (or the deceased seller) must have owned and lived in the property as their main home for at least two years during the five-year period ending on the date of sale.
- You can only have one main home. If you have two homes and live in both, you can only exempt the one you have lived in the most.
- There are exceptions to the two-year rule. Log on to [irs.gov](https://www.irs.gov) to review Publication 523 for more information.
- If only a portion of the property qualifies as your principal residence, a second 593-C form will need to be completed to certify an exemption on the portion not used as your personal residence. (e.g., a multi-family dwelling where you live and also rent out other units.)

Property last used as principal residence

- If the property was last used as the seller's (or deceased seller's) principal residence within the meaning of IRC Section 121 without regard to the two-year time period, no withholding is required.
- If the property was subsequently used as a vacation home, second home or rental, you do not qualify for an exemption.

Loss or Zero Gain

- If you have a loss or zero gain for California income tax purposes, when the amount realized is less than or equal to your adjusted basis, you must complete form 593-E, Real Estate Withholding – Computation of Estimated Gain or Loss, and have a loss or zero gain on line 16 to certify that the transaction is fully exempt from withholding.
- You may not certify that you have a net loss or zero gain just because you do not receive any proceeds from the sale, or because you feel you are selling the property for less than it is worth.

Regardless of any possible exemptions, if a seller does not have a social security number or individual taxpayer identification number, withholding must be paid to the Franchise Tax Board at 3.33% of the purchase price.



Good Funds

for Escrow Closing

Escrow companies are required to comply with the “Good Funds Law” (AB512) for all funds deposited into escrow.

What exactly are “Good Funds?”

- “Good Funds” are funds that are immediately available to the escrow company upon deposit. Depending on the type of funds deposited into escrow, a waiting period will apply before those funds can be disbursed or escrow can be closed.

What funds are considered acceptable?

- Wire Transfers from a FDIC insured bank.
- A wire transfer is the best choice to insure funds for closing escrow are good funds. These funds are electronically transferred into our trust account from the client’s bank account.
Please NOTE: ACH transfers are not wire transfers; escrow trust accounts are blocked from sending or receiving ACH transfers because these electronic transfers can be recalled by the issuers.

Cashier’s Checks

- Cashier’s checks take up to four business days to clear.
- Cashier’s checks must be issued from a California Bank.
- Once a cashier’s check has been deposited for closing, the amount does not become “Good Funds” until it has been paid by the issuing financial institution.
- Escrow cannot not accept any type of check in the amount of \$100,000 or more as stated in our Escrow Instructions.

Personal Checks

- Personal checks are not considered Good Funds and cannot be used for closing purposes.].

Escrow does not, under any circumstances, accept Money Orders.

- Despite popular belief, the payment of a Money Order cannot be tracked and does not constitute Good Funds.

Escrow makes every effort to inform your clients about the Good Funds Law and closing funds requirements. Please reinforce this with all clients so that we can help you close the transaction on time.

International Real Estate Transactions

Signings, Notaries & The Patriot Act

In today's world, even when dealing with the most local of transactions, we can often be dealing with individuals living or traveling outside our borders.

Federal laws, including The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, better known as the "USA Patriot Act," contain restrictions governing business activities with those overseas. There are also specific rules governing the signing of documents by those overseas. If you don't follow the rules, you could find your transaction delayed because you need to get documents properly signed, or worse, you could find yourself in trouble for dealing with folks the federal government says we cannot conduct business with.

You may find the following information helpful for international notarization of documents and regarding the USA Patriot Act generally:

U. S. Embassy or Consulate - usembassy.gov

United States Embassies and Consulates offer notary and signing services, and often on their website you can find a contact person, cost information and availability and appointment information.

Apostille, the International Notary - apostilla.com

An Apostille is a simplified international certification of public documents as ratified by the Hague Convention. There are over 60

countries that are member states of the Hague Convention including: Mexico, Germany, United Kingdom, Italy, Spain and South Korea, to name a few.

U. S. Military Bases

Certain officers of the U. S. armed forces may provide notarial services for military personnel and their families, civilian employees, retirees and others eligible for legal assistance.

Judge or Court of Record Process

If you are in a country that is not a party to the Hague Convention, such as Canada, a Judge or Court Record Process may be an option. This option may be challenging as each country will have a different process and their courts may not be accessible.

US Financial Crimes Enforcement Network - fincen.gov/statutes_regs/patriot

FinCEN's mission is to safeguard our financial system from illicit use and to promote national security. It publishes lists of prohibited person and countries with whom you may not be allowed to do business.

Always contact us with any questions regarding international signings and notaries as we are here to help you get Deals Done!

Source: Kelly Kintigh



Statement of Information (SI)

The **Statement of Information (SI)** is a document required by the title company that will be providing the policy of title insurance in a property purchase transaction. Escrow obtains the completed forms from the seller and buyer, then forwards them to the title company for review.

Here are a few important reasons why we need an accurately completed SI:

- Title searches cover more than just assessments and documents recorded against the property. The title company also must insure the buyer against any liens or judgments that apply to the seller of the property. Those liens and judgments are typically indexed by name only as opposed to being recorded against the property. Having a completed SI allows the title company to discover and clear liens and judgments that are filed against persons with similar names.
- Indexing by name also affects the buyer, because the new lender will require the title company to insure that the buyer has no adverse liens or judgments that might affect the lender's security interest or the sale of the property in the future.
- The SI also helps Escrow prepare the deed(s) properly. For instance, in the event the SI shows a party is married when the title is held as a single person, the title company will require an Interspousal Deed from the spouse, even though the spouse doesn't have a vested ownership interest. This insures that title is passed without any possible ramifications from others that may claim a community property or other interest in the property.

Escrow understands that the information requested in the SI is highly confidential; therefore all of our documentation is held in strict confidence. Our email attachments are encrypted, eliminating the potential for someone to intercept the information electronically. Also, we have a "clean desk policy" which requires that all files are locked up at the end of the day to protect against documents being stolen or viewed by others.

See form sample on the next page...



Statement of Information

We maintain procedural safeguards that comply with federal standards to protect the confidentiality and security of non-public personal information. This statement will serve to establish identity, eliminate matters affecting persons of similar name, protect you against forgeries, and speed the completion of your title and escrow services. PLEASE BE SURE YOU HAVE FILLED THIS FORM OUT COMPLETELY; INCLUDING SIGNATURES AND DATE. NOT PROVIDING REQUESTED INFORMATION MAY CAUSE A DELAY IN THE CLOSE OF YOUR TRANSACTION. - THANK YOU -

ESCROW NO. _____ TITLE ORDER: _____
 NAME _____ SOC. SEC. NUMBER _____
 FIRST FULL MIDDLE NAME LAST DRIVER'S LICENSE NUMBER _____
 DATE OF BIRTH _____ BIRTHPLACE _____ HOME PHONE _____
 YOUR BUSINESS PHONE _____ YOUR CELL PHONE _____ YOUR FAX _____
 YOUR E-MAIL _____ SPOUSE/DOMESTIC PARTNER E-MAIL _____
 LIVED IN USA SINCE _____ LIVED IN CALIFORNIA SINCE _____
 (CIRCLE ONE) NAME OF SPOUSE/ DOMESTIC PARTNER _____ SOC. SEC. NUMBER _____
 FIRST FULL MIDDLE NAME LAST DRIVER'S LICENSE NUMBER _____
 DATE OF BIRTH _____ BIRTHPLACE _____ PREVIOUS NAME _____
 SPOUSE/DOMESTIC PARTNER BUSINESS PHONE _____ CELL PHONE _____ FAX _____
 LIVED IN USA SINCE _____ LIVED IN CALIFORNIA SINCE _____
 IF MARRIED, OR IN A DOMESTIC PARTNERSHIP, DATE: _____ AT _____ CITY AND STATE _____
 PREVIOUS MARRIAGE(S) OR DOMESTIC PARTNERSHIP(S) (If no previous marriage or domestic partnership, write "NONE"):
 (CIRCLE ONE) NAME OF FORMER SPOUSE/DOMESTIC PARTNER _____ DECEASED _____ DATE _____
 DIVORCED _____ WHERE _____
 (CIRCLE ONE) NAME OF FORMER SPOUSE/DOMESTIC PARTNER _____ DECEASED _____ DATE _____
 DIVORCED _____ WHERE _____
 (ATTACH ADDITIONAL PAGE, IF NECESSARY)
 CHILDREN:
 NAME _____ DATE OF BIRTH _____ NAME _____ DATE OF BIRTH _____
 NAME _____ DATE OF BIRTH _____ NAME _____ DATE OF BIRTH _____
 (ATTACH ADDITIONAL PAGE, IF NECESSARY)
 INFORMATION COVERING PAST 10 YEARS.
 Residence:
 NUMBER AND STREET _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 NUMBER AND STREET _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 Your Employment:
 NUMBER AND STREET _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 FIRM NAME AND ADDRESS _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 FIRM NAME AND ADDRESS _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 FIRM NAME AND ADDRESS _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 Spouse/Domestic Partner Employment:
 FIRM NAME AND ADDRESS _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 FIRM NAME AND ADDRESS _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 FIRM NAME AND ADDRESS _____ CITY _____ ZIP CODE _____ FROM _____ TO _____
 HAVE YOU OR YOUR SPOUSE/DOMESTIC PARTNER OWNED OR OPERATED A BUSINESS?
 YES NO IF SO, PLEASE LIST NAMES _____
 I HAVE NEVER BEEN ADJUDGED BANKRUPT, NOR ARE THERE ANY UNSATISFIED JUDGMENTS OR OTHER MATTERS PENDING AGAINST ME WHICH MIGHT AFFECT MY TITLE TO THIS PROPERTY EXCEPT AS FOLLOWS:

 THE STREET ADDRESS OF THE PROPERTY IN THIS TRANSACTION IS:
 The undersigned declare, under penalty of perjury, that the foregoing is true and correct.
 Date: _____ X _____
 (SIGNATURE)
 Date: _____ X _____
 (SPOUSE/DOMESTIC PARTNER SIGNATURE)

California Residential Purchase Agreement and Joint Escrow Instructions (C.A.R. Form RPA-CA, Revised 4/10) States in Paragraph 12(A) pg 4. "Seller shall within 7 Days After Acceptance give Escrow Holder a completed Statement of Information".



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