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Morty's Bench Marks - 6/1/05

30 Yr. Fixed Conf.	5.375%
30 Yr. Fixed Jumbo	5.675%
5/1 ARM Conf.	5.00%
5/1 ARM Jumbo	5.375%
Prime Rate	6.00%
MTA	2.504%

Happy Summer!

I hope your 3-day Memorial Day weekend was restful. Unfortunately, I came back from mine feeling anything but. Nevertheless, one must push on.

NEW BUSINESS

Please notice in the upper right hand corner of the newsletter a new feature called *Morty's Benchmarks*. Its purpose is to alert readers to the interest rates for some of the most popular loan programs as of the date indicated. All rates are priced at par, that is, at the wholesale level with no rebate.

This issue marks the conclusion of the three-part series on Closing Costs and Settlement Fees. As last issue's topic highlighted Lender Fees, today's discussion will focus on Title Fees, Prepaid Costs, & Impound/Escrow Accounts. As mentioned earlier, Closing Costs include Lender Fees, Title Fees, and Government Fees. Settlement Fees = Closing Costs + Prepaid Costs + Impound/Escrows Accounts.

TITLE FUNCTIONS

The purpose of a title company in a real estate transaction is twofold. First, it performs a title search, which verifies that the seller of the property is the legal owner of the property and that there are no liens, overdue special assessments, or other claims or outstanding restrictive covenants filed in the record which would adversely affect the marketability or value of title. The search is a detailed examination of the historical records concerning property. These records include deeds, court records, property and name indexes, and many other documents. After completing the title search and if the title company finds that the seller is indeed the legal owner of the property then there is a certificate of title issued.

The secondary function of a title company is to act as a closing or escrow agent. They follow the lenders instructions on how the loan is to be documented and the funds disbursed and accounted for when the closing is completed. For these services, the title company will usually collect the following fees: Title Insurance, Escrow, Notary, and Recording.

TITLE FEE DESCRIPTIONS

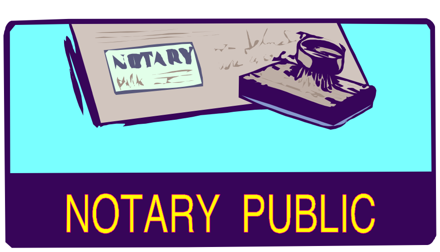
Title Insurance: Even though there is a title search performed to establish the seller's legal right to sell the property, there may be hidden defects or clouds on the title which an examination of the records could not reveal. For instance, the previous owner could have incorrectly stated his marital status, resulting in a possible claim by his legal spouse. Other problems include things like fraud, forgery, defective deeds, mental incompetence, confusion due to similar or identical names, and clerical errors in the records.

These defects can arise after the buyer has purchased one's home and jeopardize one's right to ownership. Title insurance protects against any tax liens, unpaid mortgages, or judgments missed in the research of the history of title on the property. If a claim is made against one's property, title insurance will, in accordance with the terms of one's policy, assure the buyer of a legal defense and pay all court costs and related fees. Also, if the claim proves valid, the buyer will **be reimbursed for one's actual loss up to the face amount of the policy.**

There are two types of title insurance: owner's title insurance and lender's title insurance. The owner's policy protects you, the buyer. The seller usually pays for the owner's title insurance policy. The lender policy protects the lender, or rather, protects the lender's collateral for the mortgage loan and benefits the lender. The buyer pays for the lender's policy. Title insurance is a one-time charge. It is non-transferable, even for a refinance. In the event of a refinance, lender's title insurance is still required, but usually at a reduced rate. This fee varies with the loan.

Escrow Fee/Settlement Fee/ Closing Fee: Regardless of the name of the fee, the fee is charged for the services of the escrow agents, explained above. Normally, the buyer and the seller share this fee, each paying 50% of the total fee. For a refinance, this fee is normally reduced by one-half of the normal charge.

Notary Fee: Before the mortgage deed of trust can be recorded at the court house the signature of the borrowers must be notarized. An individual certified as a Notary Public witnesses the signature of recordable documents as true and correct.

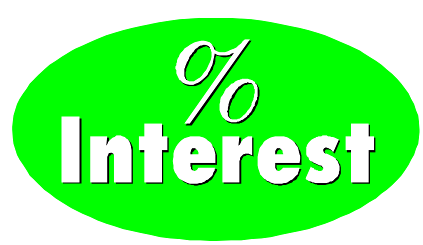


Recording Fee: The Recording Fee is charged for recording the deed and mortgage at the local court house. Usually the fee is based on the number of pages recorded. The deed of trust is typically five pages and the mortgage loan note is typically two pages. The number of pages recorded will vary due to the number of riders along with the deed of trust and the mortgage loan note. "Rider" is a contractual term which refers to a legal document which in and of itself carries little meaning, but must be coupled with other documents to have meaning; hence, the name, rider, as the document must "ride" with another document to have meaning. Typical riders include the Planned Unit Development rider, which explains the CC&R's associated with the purchased property; the Adjustable Rate rider, which details the adjustments to the interest rate for an adjustable rate mortgage; or the Environmental Endorsement rider, that stipulates that the owner of the property is responsible for damage to the environment that occurs from activities on the property while owned by the individual(s).

PREPAID COSTS

As briefly discussed in Issue 2, these are not fees, but charges due at closing. There are only two—Interest and Homeowner's Insurance.

Prepaid Interest: Renters pay their rent in advance, but homeowners pay their mortgages in arrears. Since mortgage loans are usually due on the first of each month, the interest is the amount that has accrued for the previous 30 days. Since loans can close on any day, a certain amount of



interest must be paid at closing to get the interest paid up to the first. The only interest that you prepay at closing is the interest that will accrue from the date of your closing to the end of the month. For example if one closes on the twentieth, the buyer will pay ten days of pre-paid interest. The buyer's first mortgage payment is on the 1st of the second month after closing; so, if one closes sometime during the month of January, one's first mortgage payment is on March 1st.

Note: This example is based on a purchase loan. For a refinance, there is a period of rescission which means that the loan actually closes on midnight of the 3rd business day after closing.

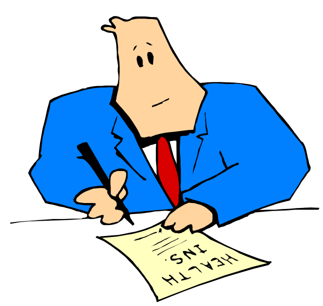
Refinance Interest: When one closes a refinance transaction there is typically outstanding interest due on the old loan. For example, if one closed on January 10th (and you'd made your January mortgage payment) there would be 10 days of interest due on the old loan and 20 days of prepaid interest on the new loan. Your first payment on the new loan would be on March 1st since would have already pre-paid all of January's interest when you closed the refinance transaction.

Homeowner's/Hazard/Fire Insurance: A buyer is required to pay a one-year premium for homeowner's insurance at or before closing (if one chooses to pay the insurance company directly, in which case, one brings proof of payment to closing (insurance declaration page). The lender requires that the buyer has homeowner's insurance to protect the collateral of the mortgage loan. Homeowner's insurance is then paid in monthly installments, included as part of one's mortgage payment. The lender places each monthly payment into an escrow/impound account. By the end of a year, the lender has collected the buyer's yearly premium and pays the annual premium when it is due.

Escrow/Impound Accounts: The Escrow/Impound Account really functions as forced savings for the buyer to ensure that the insurance and taxes will be paid. A portion of your monthly mortgage payment includes monthly premiums for homeowner's insurance, taxes and private mortgage insurance (PMI), if applicable. The allotted portion of your monthly payment for theses items is placed in a escrow/impound account. The lender uses the money from the escrow/impound account to pay your insurance and taxes. Section 10 of the Real Estate Settlement and Procedures Act (RESPA) limits the amount of money a lender may require the borrower to hold in an escrow account for payment of taxes, insurance, etc. RESPA also requires the lender to provide initial and annual escrow account statements. At closing, depending on the size of your down payment, you may be required to deposit money into and escrow/impound account.

ESCROW/IMPOUND ACCOUNT DESCRIPTIONS

Homeowner's Insurance Impound: If one's down payment is less than 20%, the buyer will be required to put 2 month's worth of the annual homeowner's insurance premium into an escrow account, otherwise the buyer will place 1 month into the account. The monthly mortgage payment will include 1/12 of the annual premium in the payment, which is kept in the escrow account until the annual premium is due. If one's down payment is less than 20%, the buyer will have a two-month "cushion" in the escrow account. Cushions are allowable but limited under RESPA; in other words, RESPA accepts the practice of the lender's wanting to cushion the escrow account, but limits the amount of the cushion to a reasonable amount.



PMI Impound: Private Mortgage Insurance (PMI) protects the lender in the event that the borrower defaults on the mortgage loan. It is usually required if the borrower's down payment is less than 20%. The borrower has to deposit 1-month's worth of PMI premiums into the escrow **account, depending on the lender. Property Tax Impounds:** These depend on three factors:

*In which state the property's located and when the taxes are due

*Whether the property taxes are paid in arrears or in advance

*The month in which the transaction closes

In California, property taxes are paid semi-annually, with one payment in arrears and one in advance. A borrower's monthly mortgage payment includes 1/6 of one's semi-annual property tax. Therefore, the borrower needs to deposit the number of month's worth of property taxes into the escrow account that will yield 6 months worth of property taxes in the account at the time that property taxes are due.

In conclusion, one final note regarding this seminar on Closing Costs and Settlement Fees because other parties charge these fees, we as brokers have minimal control over them. We may pay these fees for you, but just as there is no free lunch, your interest rate will necessarily be higher. If you don't plan to keep your home or your loan more than 5 years, such an option may be of benefit to you.

Ask Morty

Since there were no emails, phone calls, or faxes for Morty this month I can only assume that the readers of this newsletter are among the best informed in matters regarding real estate or its financing. Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. (See front of issue for phone and fax numbers). Morty's email address is....
Morty@MortgageStraightTalk.com

NEXT ISSUE'S TOPIC:

Terms -- 15 Year vs. 30 Year vs. 20 Year.