

SAFE Comprehensive

Chapter 4

Title and Appraisal Fundamentals

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Chapter Objectives

- Describe the title search purpose, process, and responsibilities of the title company and lender
- Describe the steps for obtaining an appraisal for a mortgage loan transaction

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Role of Title Company

- **Primary Role**
 - Conduct title searches and issue title insurance when real estate is formally sold
 - Ensure title to piece of real estate is legitimate
 - Issue title insurance that protects lender and property buyer
- **Selecting Title Company**
 - Recommendations
 - Proximity to buyer, seller, and property
 - Fees and experience
 - Technology and other tools that help manage the process

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Title Search Purpose

- **Title**
 - Actual lawful ownership of real property and refers to holding the bundle of rights conveyed
 - Not a document; a theory pertaining to ownership
- **Title Search**
 - Process of researching and finding documents that evidence transaction and other events in history of piece of real property

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Title Search Components

- **Chain of Title Search**
 - Verifies person/company that has full ownership
- **Tax Search**
 - Verifies there are no past due taxes on home
- **Property Survey**
 - Confirms property boundaries
- **Lien Search**
 - Identifies outstanding mortgages, liens, or judgments associated with property
- **Abstract of Title**
 - Document; brief summary of title search discoveries

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Activity 4.1 Knowledge Check

1. The seller _____ require the buyer to complete a title search and purchase title insurance from a particular title company.

A. can
B. cannot

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Activity 4.1 Knowledge Check

2. To see if there are any outstanding mortgages, liens, or judgments associated with the property, title company representative Gale completes a

- A. chain of title search.
- B. lien search.
- C. property survey.
- D. tax search.

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Title Insurance

- **Commitment of Title Insurance**
 - Issued to lender and prospective buyer; identifies conditions to be met or resolved
- **Title Insurance**
 - Insures against financial loss from defects in title and from invalidity or unenforceability of mortgage loans
 - Paid upfront
 - State regulated premiums and service fees
 - Commonly purchased to insure fee simple ownership interests or mortgage; can be used to insure any interest in real property
 - Owner's policy or lender's policy

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Activity 4.2 Knowledge Check

1. Bill Jones signs contract for purchase of single-family house for \$350,000 and applies for mortgage for \$280,000. While performing search, title company retained by mortgage company discovers that previous owner had minor construction done on property but never fully paid contractor. As a result, there is a mechanic's lien filed against property in amount of \$8,000. Which of the following actions can Bill take?

- A. cancel contract and look for another house
- B. clear lien by paying \$8,000 or negotiating for lesser amount
- C. close with title company making exception for coverage of lien

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Activity 4.2 Knowledge Check

2. A lender's policy issued by a title company guarantees which of the following?

- A. that lender's lien occupies particular position against any other liens
- B. that lender is made aware of all liens against property
- C. that ownership is free of all liens, encumbrances, and defects
- D. that a purchaser is receiving marketable title to property

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Preparing for Closing Meeting

- **Settlement Agent**
 - Complete the title search
 - Issue a commitment for title insurance
 - Prepare for closing meeting
- **Title Company Documents**
 - Deed
 - Abstract of Title
 - Title Report
 - Certification of Title
 - Title Insurance Policy

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Preparing for Closing Meeting

- **Mortgage Loan Documents**
 - Mortgage Note and Mortgage
 - Loan Application
 - Loan Estimate and Closing Disclosure
- **Additional Documents**
- **Responsibilities of Title Company**
 - Determine closing documents conform to contract
 - Set the closing appointment
 - Ensure transaction progresses to contracted date
 - Confirm lender's instructions have been satisfied

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Activity 4.3 Knowledge Check

1. After receiving closing instructions from the lender, which of the following are documents that the title company has responsibility for preparing for the closing meeting?

- A. Certificate of Title
- B. Deed
- C. Mortgage Note
- D. Title Insurance Policy

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Activity 4.3 Knowledge Check

2. The _____ is ultimately held responsible for the Closing Disclosure content.

- A. lender
- B. title company

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The Appraisal Process

- **Appraisal**
 - An estimate or opinion of value as of a certain date that is supported by objective data
 - Not a guarantee of value
- **Uses of Appraisals**
 - Value of property used as collateral for mortgages or investments
 - Sellers want an appropriate listing price
 - Purchasers want to confirm appropriate offer price
 - Civil lawsuits, divorces, bankruptcies
 - Estates and trusts, etc...

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The Appraisal Process

- **A Quick History**
 - Need to create standardize process
 - **Financial Institutions Reform, Recovery, and Enforcement Act**
 - Must be conducted by licensed/certified appraiser
 - **Uniform Standards of Professional Appraisal Practice**
 - Established and promoted by the Appraisal Standards Board of the Appraisal Foundation
 - Dictates standards, rules, and guidelines that licensed/certified appraisers must follow

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The Appraisal Process Steps

- 1. Define the Problem**
- 2. Define the Scope of Work**
- 3. Collect and Analyze Applicable Data**
 - Highest and Best Use
 - 4 tests: Legally permissible, physically possible, financially feasible, maximally productive
- 4. Estimate the Value of Subject Property**
 - Sales Comparison Approach
 - Cost Approach
 - Income Approach

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Activity 4.4 Knowledge Check

- 1. A professional appraisal**
 - A. is only an opinion of value supported by facts.
 - B. reflects the actual value of the subject property.

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Activity 4.4 Knowledge Check

2. If a house sits on a widened street and is surrounded by commercial buildings, would that land be more valuable if it were put to commercial use?

A. Yes
B. No

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Activity 4.4 Knowledge Check

3. In which step of the appraisal process would an appraiser determine the highest and best use?

A. apply the approaches of value
B. collect data/analyze data
C. define the problem
D. reconcile the final estimate of value

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Activity 4.4 Knowledge Check

4. The ____ approach is BEST used to determine an opinion of property value for relatively new construction or for unusual or special purpose properties that have few or no comparables.

A. cost
B. income
C. sales comparison

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Sales Comparison Approach

- **Finding Comparable Sales**
 - Number and Time
 - Minimum of 3 comparables
 - Recent sales, usually within 6 months prior to date of appraisal
 - Same Market Area
 - Same Transfer of Rights
 - Part of an Arm's Length Transaction
- **Adjusting Comparable Sales**
 - Sales comparison approach allows for adjustments

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Sales Comparison Approach

- **Adjusting Comparable Sales**

	Comparable 1
Feature	No garage
Adjustment	+5,000
Pre-adjustment Value	\$91,000
Final Value	\$96,000

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Activity 4.5 Knowledge Check

1. Borrower Hank is applying for a mortgage loan to finance the purchase of a home with a 1-car garage. Comparable 2 is a home with a 2-car garage that has a pre-adjusted value of \$110,000. If the value of a garage is determined to be \$5,000, what adjustment is needed if the comparable has a 2-car garage?

- A. minus \$5,000
- B. plus \$5,000
- C. no adjustment is needed

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Sales Comparison Approach

- Adjusting Comparable Sales**

Subject	1	2	3
Never adjusted	No garage	1-car garage	2-car garage
	+5,000	+/- \$0	-\$5,000
	\$91,000	\$100,000	\$110,000
\$100,000	\$96,000	\$100,000	\$105,000

- As of sales date
- For significant features
- Limits: Total net value not to exceed 15% and total gross value not to exceed 25% of comparable sales
- Sequence of adjustments in order of priority

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Activity 4.6 Knowledge Check

1. A comparable sold for \$85,000. It had positive adjustments for a garage (+\$3,000) and a half bath (+\$1,500) and a negative adjustment for a basement (-\$2,500). Is the net adjustment within acceptable parameters?

A. Yes
B. No

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Activity 4.6 Knowledge Check

2. A comparable sold for \$55,000. It had positive adjustments for a garage (+\$3,000) and half bath (+\$1,500) and negative adjustments for owner financing (-\$5,500), a basement (-\$2,500), and bedroom (-\$2,000). Is the gross adjustment within acceptable parameters?

A. Yes
B. No

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The Appraisal Process Steps

5. Determine a Final Opinion of Value

- Estimates of value from all fully developed approaches are reconciled to arrive at best estimate of value; never merely average

6. Report the Defined Value

- Uniform Residential Appraisal Report

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Activity 4.7 Knowledge Check

1. Given all types of adjustments, which of the following adjustments is to be given the lowest priority?

- A. conditions of sale
- B. financing terms
- C. physical characteristics
- D. property rights conveyed

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Activity 4.7 Knowledge Check

2. What are the six sequential steps to the appraisal process?

- 1. Define the Problem
- 2. Determine Scope of Work
- 3. Collect and Analyze Data
- 4. Estimate Property Value
- 5. Determine Final Opinion of Value
- 6. Report the Defined Value

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Chapter Quiz

1. What is the title company's primary responsibility?

- A. conducting the closing after all conditions have been met
- B. giving an executed deed for the property to the closing agent
- C. providing financing for the purchase
- D. researching the title

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Chapter Quiz

2. A title search typically starts with a _____ search to ensure the person or company claiming to own the property does legally have full ownership of the property.

- A. chain of title
- B. lien
- C. property
- D. tax

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Chapter Quiz

3. Title company representative Fallon is conducting a property survey to

- A. confirm the property boundaries and ensure the home sits within those boundaries.
- B. ensure that there are no past-due taxes on the home.
- C. ensure the person or company claiming to own the property legally have full ownership of the property.
- D. see if there are any outstanding mortgages, liens, or judgments associated with the property.

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Chapter Quiz

4. Which document provides a summary of a property's entire title history?

- A. abstract of title
- B. deed
- C. survey
- D. title report

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Chapter Quiz

5. Title company employee Riley is organizing documents for a closing meeting. She needs to prepare all of the real estate transfer documents EXCEPT the

- A. certificate of title.
- B. closing disclosure.
- C. deed.
- D. loan application.

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Chapter Quiz

6. Appraiser Alan has finished collecting and analyzing applicable data. What is Alan's next step in the appraisal process?

- A. determine a final opinion of value
- B. determine the highest and best use of the subject property
- C. estimate the value of the subject property
- D. report the defined value

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Chapter Quiz

7. Which is an example of real estate put to its highest and best use?

- A. a flat, paved parking lot in downtown Chicago
- B. a house in a residential subdivision
- C. an old house on a major highway surrounded by commercial buildings
- D. a vacant lot

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Chapter Quiz

8. Vincent is tasked with deriving the value for a large, custom home that was constructed nine months ago on a secluded 10-acre lot. Which appraisal approach could be considered the most reliable for valuation?

- A. cost approach
- B. income approach
- C. sales comparison approach
- D. All are equally reliable.

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