Title Chat

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Land Flips

"Land flips" are still happening as disclosed by a recent article in **The Miami Herald**

The September 22, 2001, edition of **The Miami Herald** contained an article disclosing the arrest of several persons who were accused of arranging for mortgage loans for residential properties where the property was "sold" twice in land flips before the mortgage loan is closed.

Some twelve different properties were involved. The article quotes a law enforcement officer involved in this case as stating "In a typical "land flip," the subject purchases a piece of property legitimately. With falsified inflated appraisals in hand, a "straw buyer"—in some cases a personal friend—fills out an application to borrow money from a lender using a fictitious name." In these cases the "straw buyer" purchases the property from his friend, the first purchaser for a price in line with the inflated appraisal.

Both closings occur simultaneously, sometimes with the same closing agent.

The article concludes by referring to a 1999 investigation of a similar operation that occurred in Broward County, Florida.

Not all land flips are illegal. If an investor can purchase a house from its owner for a fair price and immediately sell it to another for a price that the new purchaser (and his/her lender and appraiser) determine to be fair and at market, then there is nothing wrong and we should be prepared to close and insure.

The problem arises when the second sale is based on an inflated appraisal, false credit applications, contracts for inflated prices that show deposits made but which are non existent, HUD-1 statements that are false, etc.

Our role as a title insurer is to call the lender's attention in our title commitment to the fact that the lender's borrower does not own the property. The title commitment must reflect the party in title in Schedule A of the title commitment and in Schedule B 1 call for **two** deeds; one from the party in title to the first purchaser and a second deed from the first purchaser to the second purchaser.

In your role of closing the loan transaction, we are aware that some lenders instructions state that the loan is not to be closed and will not be funded unless approved by certain of the lender's officers if certain factual situations exist such as a transfer of the property within a certain time period before the loan closing. Be familiar with your lender's closing instructions. If you suspect non-existent deposits or false information being furnished for the HUD-1, do not close. Review what you encounter with your manager or underwriter.

Title Chat is published monthly by North American Title Insurance Corporation, a member of the North American Title Group of companies for distribution to North American Title Group's employees and customers. Topics will include closing issues, title and title insurance issues and title insurance business issues; and are intended to make the reader aware of the issues discussed.

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