

Hold Opens

How they can benefit your real estate transaction

What is a Hold Open?

A Hold Open is a title insurance term used for real estate transactions where the title company that insures the initial sale agrees to insure another sale of the same property within 24 months of the original sale.

Realtors sometimes refer to these transactions as flips.

There are three parties involved in a completed Hold Open transaction: the original seller, the middle buyer (the person requesting the Hold Open), and the final purchaser.

Hold Opens are most often associated with fixer-upper properties, but this is not a requirement for a buyer to request a Hold Open. Investment properties can be held open from one sale to the next, and Hold Opens are also available for short-term owners who simply know they will be selling the property within two years.

Benefits of a Hold Open

A Hold Open ultimately saves money for the middle buyer. If the buyer knows that the purchased property will be resold within two years, Land Title can hold open the file for

the resale at a fraction of the cost the buyer would have paid — even with a discounted reissue rate — in title insurance premiums.

The process works like this: The original seller pays the applicable title insurance premium for the initial sale to insure the middle buyer. The middle buyer then pays only a small percentage (depending on the underwriter) of the full basic premium charge in order for the title company to keep the file open, and no title insurance policy is issued at this time.

When the middle buyer sells the property, he pays the difference in premiums between his purchase price and the selling price on the second half of the Hold Open, and a title policy is issued only to the final purchaser.

For example, a Denver residential property purchased for \$250,000 would have a full premium of \$1,265, so the buyer would pay a Hold Open fee of \$126 to keep the file open. If he sells the house for \$300,000 (the full premium would have been \$1,357), he would pay the difference in premiums, which would be \$92. His total title charge would be \$218, saving \$553 over the \$771 he would



Gavin Higashi
303-419-2523
ghigashi@ltgc.com

2921 W. 120th Ave.
Suite 110
Westminster, CO 80234
Office 303-469-4711
Fax 303-469-4238
www.LTGC.com

have paid if he had simply used a standard 50% reissue rate.

Conditions for a Hold Open

A property is eligible for Hold Open status only if the following conditions are met:

- A commitment to insure the final purchaser is issued after recording the initial conveyance to the middle buyer. This is in lieu of a policy of title insurance to the middle buyer. Any adverse matters that are recorded or become known to the title company must be satisfied before the policy is issued.
- There must be a single resale transaction of the exact property as reflected on both the original commitment to the middle buyer and the final policy to the final purchaser. For example, the purchase of a duplex must be sold as a duplex, not sold as two separate units in the final conveyance.
- The middle buyer must sign an affidavit acknowledging that he is aware the property must be sold within two years or the Hold Open charge will be forfeited and the policy issued to the middle buyer.
- Both transactions must be insured through the same title company. The final purchase for the transaction initially held at one title company cannot be insured by another title company.

Property value increases

The Hold Open charge is based upon full value of the real estate or interest at time

of the initial conveyance, with an additional charge of 10–25% (depending on the underwriter) of the basic premium based on the full value of the real estate or interest.

Upon closing of the resale within two years, the owner's title policy will be issued to the final purchaser without additional cost.

If there is an increase in the liability between the initial conveyance and the ultimate sale, a charge will be made based on the difference between the two liabilities calculated at the applicable schedule of rates.

Additional stipulations

The Hold Open is available only one time per transaction.

If the resale to the final purchase is not recorded within 24 months of the date of the original sale, the policy of title insurance will be issued insuring the purchaser in the initial sale in the amount originally committed, and the Hold Open charge will be forfeited.

A potential drawback of the Hold Open procedure is that the middle buyer is not insured for any warranties of title that may be given in the deed to the final purchaser, since no owner's policy is issued to the middle buyer.

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