

HOLD OPEN TRANSACTIONS

Property owners are always looking for ways to maximize profits and save money on closing costs. Hold Opens offer one way to save on fees for investors or short-term property owners. When a buyer plans in advance to purchase and resell the property within 12 months, the title insurer can Hold Open the title policy for resale at a minimal cost. Hold Open fees offer more saving potential than Reissue Rates can realize.

A Hold Open refers to the purchase of a property with a commitment to insure a resale within 12 months of the purchase. These transactions are often referred to as “flips”. Hold Opens are not limited to investment properties as they are also available to any owners who intend to purchase and sell the subject property in the short-term. People who own second homes or plan to relocate quickly may fit in this category.

Properties that may be eligible for Hold Open status have two components to understand. In the first half of the Hold Open process, the Hold Open fee is identified on the title commitment to insure the ultimate purchaser and not the initial buyer. No title insurance policy is issued to the initial buyer. In the second half of the process, the property is further conveyed to the ultimate purchaser of that property. Also, both the first and second transactions must be insured through the same title company differing from Reissue Rates (which apply regardless which title company was the prior insurer).

Here is an explanation of the process for a Hold Open in Colorado. An Owner's Title Policy is purchased in contract by the seller or buyer, and the buyer must request a Hold Open prior to closing from the closing agent. The buyer will pay a Hold Open fee at closing on the settlement statement. Fees vary by the title underwriter and may be a flat fee or a percentage related to the Basic premium on the purchase price. No title insurance policy is issued after this closing and conveyance. When the buyer then sells the property within 12 months, he/she pays the difference in premiums between the initial purchase price and the new selling price to complete the second half of the Hold Open. The title policy is then issued to the ultimate purchaser.

In example, John purchases a property for \$150,000.00. The Owner's Title Policy premium is \$1,093.00 and the buyer pays a \$200.00 flat fee for the Hold Open. The property is then sold within one year for \$200,000.00. Upon this sale, the full Owner's Policy premium would have been \$1,191.00 but John pays only \$98.00 (the difference in premium from original purchase price to current sales price) due to the Hold Open. In comparison, a Reissue Rate would be \$675.00 so John realizes a savings of \$577.00 on the ultimate policy issued on the property.

There are a few other items to note. If the property is sold for the same price as the initial purchase price, there would be no additional premium for the subsequent sale with the price being identical. Also if the resale to the final purchaser does not occur within the 12 month period, the title policy will be issued insuring the initial buyer, and the Hold Open fee is forfeited. In some cases, title insurers may offer the option to extend the Hold Open beyond 12 months and the buyer should contact their insurer for details and rates.

The information contained is deemed reliable, but it does not constitute legal, financial or tax advice. Property owners are advised to seek professional counsel as necessary.

