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UNDERWRITING BULLETIN

Bulletin No.: CA09-005

TRUST DEEDS WITH QUESTIONABLE RECONVEYANCES OF RECORD.

From time to time we run across a fraud by the Bad Guys involving reconveyances. Typically a property will be presented to you that is free and clear of lien. This is an unusual event. The pattern of trust deeds and their reconveyances on the chain can be a good indicator that something may be wrong.

Generally, the normal pattern of trust deeds and reconveyances shows the releases being recorded after an event that generated the funds for payoff, such as a sale or refinance.

Something like this:

Trust Deed #1 -- then
Trust Deed #2 -- then Reconveyance for Trust Deed #1 then
Trust Deed #3 -- then Reconveyance for Trust Deed #2
And so forth.

If you see:

Trust Deed #1 -- then Reconveyance for Trust Deed #1 then
Trust Deed #2 -- then Reconveyance for Trust Deed #2 then
Trust Deed #3 -- then Reconveyance for Trust Deed #3
and so forth.

There is clearly something wrong here. People do not generally pay off debts and then replace them with new debts after forking out cash. The chances that these reconveyances are erroneous or fraudulent are very good. If you see a pattern like this, you must examine the hard copies of the reconveyances. You must verify with the lenders that they have, in fact, been paid.

If you have a property which is now free and clear of deeds of trust, you must show the last (presumptively reconveyed) deed of trust and the effect of the purported reconveyance with a note similar to this:

Before issuing its policy of title insurance, this company will require evidence, satisfactory to the company, the deed of trust shown as item no. * is been paid in full

There are circumstances where a free and clear property will actually make sense. The old family homestead, owned for decades by the same people, and never refinanced, does surface from time to time.

Do not ignore the possibility that the most current, live, deed of trust is misposted in the plant or has a recording error that makes it difficult to find or, as comes up in claims from time to time, the previous title company closed but failed to record the deed of trust. Sometimes a County Grantor-Grantee run tells the tale.