



UNDERWRITING BULLETIN

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Oil and Gas leases and exceptions.

If you are showing an oil and gas lease in Schedule B, be sure the writeup contains a statement similar to:

“matters concerning the lessor and lessee are not shown herein.”

We do not search out, or insure, oil and gas ownership matters. You may find in your computer chain various documents executed by the oil company (the lessee) such as pooling agreements and deeds of trust recorded after the date of the lease. These can be safely ignored since they only affect the lessee's interest under the lease. If you see such documents and do not show a lease, take another look, these secondary documents will refer back to the original lease.

Most oil and gas leases are 'community' in nature. This means that the lease not only covers the deposits directly below the surface of the land but a share of the oil pool which covers many properties. As a result, the lessors interest in the lease must be assigned, it does not pass completely with the recording of a deed. The seller and the buyer will have to agree to transfer the lessor's interest in the lease and instruct us to do so.. If there isn't a separate assignment off-record and no language in the deed, the lessee oil company may refuse to pay the royalties to the new owner. It is suggested that language be inserted into the deed along the lines of:

Together with all of grantor's right, title and interest, if any, in and to that certain oil and gas lease recorded xxxx as instrument no. xxxx.

A seller may wish to reserve the rights under a lease together with the ownership of the oil and gas rights. If you are handling a sale transaction, you may be asked to insure a deed excepting the oil and gas. The exact language of the reservation should be provided by the seller. If there is an existing lease, the lessors interest in that lease needs to be excepted as well. A sample might read like:

EXCEPTING AND RESERVING UNTO THE GRANTOR HEREIN, all oil, gas, minerals and other hydrocarbon substances lying below a depth of 500 feet from the surface thereof without, however, the right of surface entry. ALSO EXCEPTING AND RESERVING UNTO THE GRANTOR HEREIN all lessors right title and interest in and to that certain subsurface oil and gas lease recorded xxxxxx as instrument no. xxxx official records.

An existing exception should be shown after the legal description using the exact language of the reservation and a reference to the deed where it was reserved or granted.

A lender may want an endorsement to their policy such as a 100.23, 100.24 or 100.29. Generally on a subdivided residential property these are safe to issue. If the property is commercial or industrial, contact your underwriter.

Intentional disregard of the matters contained in this Bulletin may cause any loss sustained under the terms of a policy to be allocated entirely to the Agent