

WFG Underwriting Bulletin



To: All WFG Policy Issuing Agents; All WFG Title Examiners and Officers
From: WFG Underwriting Department
Date: April 29, 2020
Bulletin No. NB-2020-09
Subject: Claims Warning – Charged Off does not mean Released

We've recently seen two large claims in which the agent relied on a statement in the Credit Report that a mortgage had been "Charged Off." Based on that information, one agent insured a new loan without exception for or requiring payment of the outstanding "Charged Off" mortgage. Another insured a sale, and the seller happily walked away with the amounts that should have been applied to paying off his mortgage.

WFG found out about both when the new insured owner and new lenders received notices that their interests were going to be foreclosed.

As Experian, a large credit bureau, describes it:

"Charge off" means that the credit grantor wrote your account off of their receivables as a loss, and it is closed to future charges. When an account displays a status of "charge off," it means the account is closed to future use, although the debt is still owed.¹

It is quite common for "charged off" debts to be sold to collection agencies, which will then try to collect the amounts due – including by foreclosing on any property which serves as collateral for the loan.

Please stress this in training your staff. "Charged off" does not mean "released." Since we insure marketable record title for our buyers -- even mortgages that show as "Paid in Full" or "Zero Balance" on the credit report still should be released in the land records.

Do not omit any unreleased mortgage, deed of trust or other liens based upon references in a credit report such as "charged off" or "paid in full" shown as having a zero balance. If the parties indicate that the lien has been paid in full, you should independently verify the payment status with the lien creditor and take the necessary steps to obtain a recordable release.

¹ <https://www.experian.com/blogs/ask-experian/what-does-charge-off-mean/>

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The Agent may be held responsible for any loss sustained as a result of the failure to follow the standards set forth above.