**WFG Oregon Underwriting Bulletin**

**WFG National Title Insurance Company**

**12909 SW 68th Pkwy, Suite 350, Portland, OR 97223, (503) 431-8500**

**Date:** October 22, 2013

**To:** All Escrow Personnel

**Re: DOUBLE ESCROWS AND FLIPS**

There has recently been an increase in the use of “double escrows”, often in connection with “flip” transactions. Because there has been considerable litigation in this area and fraud actions have been brought against those who structure and/or close double escrows, including title companies, the purpose of this Bulletin is to provide standard guidelines for insuring transactions involving double escrows.

As used in this Bulletin, a “double escrow” is a pair of escrows in which Party A agrees to (i) purchase property owned by Party B using one escrow, and (ii) simultaneously (or within a very short period of time) sell the same property to Party C at a higher price using a separate escrow. Likewise, a “flip” is a transaction in which a property is purchased and quickly resold for a profit.

Of course, not all transactions in which property turns over quickly are fraudulent. Some examples of such transactions that typically are legitimate include sales of property obtained through an inheritance, that is part of a settlement in a divorce decree, that is part of an employer relocation program, or that is acquired by a lender as a result of foreclosure.

Nevertheless, while not inherently fraudulent, double escrows present an opportunity for fraud and for that reason are to be considered high liability transactions. Some examples of fraud in double escrow transactions include the possibility that (i) the seller in the first escrow (Party B in the example above) has been deceived into selling the property for too little, (ii) the buyer in the second escrow (Party C in the example above) has been misled into purchasing the property for too much, (iii) a short sale lender in the first escrow has not been informed of or consented to the fact that the property will immediately be flipped to Party C for more than the short sale lender has accepted in the first escrow, or (iv) a lender in the second escrow has been deceived into loaning on property whose value has been artificially inflated by a series of sales between related or fabricated parties.

**For this reason, every transaction involving double escrows needs to be individually reviewed and approved in writing by underwriting before we will agree to close or insure it.**

1. If there is evidence or a reasonable suspicion of fraud, overreaching or deception, we will not close or insure the transaction.

2. If there is no evidence or reasonable suspicion of fraud, overreaching or deception, we will consider handling the transaction, with approval more likely if at least 90 days have transpired since the closing of the first escrow, the purchase price in the second escrow is no more than 120% of the sale price in the first escrow, and/or there is full and complete disclosure to all parties involved. Expect that full disclosure would include:

1. Full disclosure to and written acknowledgment from both the seller in the first escrow (Party B) and any lender being paid off in the first escrow of (i) the existence of the second escrow, (ii) the price for which the property is being sold in the second escrow, and (iii) the fact that the funds to complete the first escrow are coming from and contingent upon the closing of the second escrow.
2. Full disclosure to and written acknowledgment from both the buyer in the second escrow (Party C) and any lender making a loan in the second escrow of (i) the existence of the first escrow, (ii) the price for which the property is being sold in the first escrow, and (iii) the fact that the funds to complete the first escrow are coming from and contingent upon the closing of the second escrow.

Note than any such acknowledgements must come directly from the seller, buyer or lender, as applicable, and not from their representatives (i.e. real estate agents, mortgage brokers, etc.)

3. In addition, since many deeds from short sale lenders contain a deed restriction that prohibits the property from being resold/flipped for a fixed period of time, underwriting will review recent vesting deeds to insure that no such restrictions apply to the transaction in question.

4. If approved by underwriting, in addition to any requirements imposed by underwriting, you should ensure that there are two separate settlement statements, one for each of the two transactions taking place. In addition, if there is no actual cash being brought in by the middle man (Party A in the example above) to acquire the property in the first escrow, but the funds are actually coming from a loan put in place for the second escrow, the settlement statements must accurately reflect the same.

If you have any questions related to this Bulletin, please contact your local WFG underwriting personnel.

***THIS BULLETIN IS A CONFIDENTIAL COMMUNICATION BETWEEN WFG AND THE ADDRESSEE AND IS INTENDED ONLY FOR WFG’S INTERNAL USE. WFG DOES NOT AUTHORIZE THE DISCLOSURE OF THIS COMMUNICATION TO ANY THIRD PARTY IN ANY MANNER WITHOUT WFG’S PRIOR WRITTEN CONSENT.***