



**A preliminary report is a report prepared by a title company before issuing a title insurance policy. This report shows the ownership of a specific parcel of land, together with the liens and encumbrances that will be excluded under a subsequent title insurance policy.**

**What role does a Preliminary Report play in the real estate process.**

The report contains the conditions under which the title company will issue a particular type of title insurance policy. It lists title defects, liens and encumbrances, which would be excluded from coverage if the requested title insurance policy were to be issued as of the date of the preliminary report.

A preliminary report provides the buyer with an opportunity to seek the removal of objectionable items referenced in the report, prior to closing the sale.

**What should I look for when reading my Preliminary Report?**

Pay particular attention to the nature of the ownership interest in the property you will be receiving, as well as any claims, restrictions or interests of other people involving the property. The most common form of interest is "fee simple" or "fee", which is the broadest form of interest an owner can have in land.

Liens, restrictions and interests of others, which are being excluded from coverage will be listed numerically as "exceptions" in Schedule B of the preliminary report. An example of a common type of third party interest is an easement given by a prior owner, which may limit the owner's use of the property. A printed list of standard exceptions and exclusions listing items not covered by your title insurance policy may be attached as an exhibit item to your report.

**When and how is the Preliminary Report Prepared.**

An order will be placed with the title company shortly after escrow is opened, which will begin the process of producing the report. Processing the report entails the assembly and review of certain recorded matters relative to both the property and the parties to the transaction. The "exceptions" will remain listed as such unless they are eliminated or released prior to the transfer of title.

**Is a Preliminary Report the same thing as title insurance?**

Absolutely not. A preliminary report is a statement of terms and conditions of the offer to issue a title insurance policy, not a representation as to the condition of title. No contract or liability exists until the title insurance policy is issued to a particular person.

No one other than the named insured may claim the benefit of the policy.

**Will the preliminary report disclose the complete condition of the title to a property?**

No. It is important to understand that the preliminary report is not a written representation as to the condition of title and may not list all liens, defects and encumbrances affecting title to the land, but only reports the current ownership and matters that the title company will exclude from coverage if a title insurance policy should later be issued.

**Who can I turn to for further information regarding Preliminary Reports?**

Your real estate agent and your attorney, should you choose to use one, will help explain the preliminary report to you.

## **Can I be protected against title risks Prior to the close of the real estate transaction?**

Absolutely! Your title company can protect your interest through the issuance of "binders" and "commitments." A binder is a temporary contract of insurance in which the title company agrees to issue a specified policy within a specified period of time. A commitment is a title insurer's contractual obligation to insure title to real property once its stated requirements are met.

## **Why is title insurance necessary when purchasing or refinancing a home?**

A title insurance policy assures that the transfer of ownership is completed smoothly, and that you receive protection from any covered claims that may arise in the future. Common flaws may surface at anytime, and the title policy protects you from any claims during the course of your ownership of the property. Title insurance fees are based on the sale price of the home. If you anticipate selling a property within 2-3 years after the date of purchase, you may request a binder to be placed on your title policy, for an additional fee, that will significantly reduce the cost of the owner's policy when the property is sold. If you plan on selling your home within five years of its original purchase, some title companies will discount the cost of the subsequent owner's policy by 20% (known as a short-term rate) regardless of which title company issued the original policy.

## **A Few Facts About Owning a Home:**

Title to property is made up of many different rights and interests that may be held by different people. The "owners" hold "fee simple" title, which means they have purchased the most vital and valuable interest in the property, which includes rights of possession, use, occupancy, enjoyment, and inheritance. However, other people may also have rights to the property, such as easements, liens, or deeds of trust.

When a person purchases a parcel of real estate, it is not only the physical property that is acquired, but also the seller's rights and interests (i.e., the seller's "title"), in and to the property.

Before purchasing real property, the buyer needs to know what rights the seller can convey and who else may have rights or interests in the property, including any encumbrances that may affect the use or enjoyment of the land.

Because land endures over generations, many individuals and entities may acquire rights and claims to a particular property, and these interests can impact and LIMIT the title of any seller.

## **The Rights and Interests of Title:**

- Rights and interest that are disclosed in the public records or by physical inspection of the property, (i.e., deeds, mortgages, leases, party in possession, utility easements, etc.).
- Rights and interests that are not recorded, but do exist, (i.e., limitations imposed by laws and statutes).

## **What to Look for in Your Preliminary Reports:**

- Vested Owners Name - are the names as shown on the Purchase Agreement/Deposit Receipt? Have all parties executed and approved the Purchase Agreement?
- Type of Estate or Interest - fee title or other (leasehold/equitable)
- Printed Exceptions current taxes, supplemental taxes due to recent reassessment, lien for future supplemental taxes, Sale to State for unpaid delinquent taxes/bonds.
- Easements understand the type and location of all easements. Don't hesitate to ask your escrow officer or title officer for a copy of the recorded easements.
- Covenants, Conditions and Restrictions (CC & R's) declaration recorded by the developer of a subdivision prior to sale, describing property restrictions and agreements affecting said property and future owners. Copies of all recorded CC & R's are available upon request.
- Deed of Trust recorded instrument that makes the property security for an obligation, usually a loan.
- Notice of Default alerts all parties to an existing foreclosure proceeding.
- State or Federal Tax Liens, Judgments, Bankruptcies records of administrative or court proceedings affecting the owner and/or the property described therein.
- Legal Descriptions a method of geographically identifying a parcel of land, by lot and block or meters and boundaries.
- Plot Map describes the lot size and identifies street names and nearest intersections.