



What Is A Hold Open?

Hold Opens are a favorite title insurance product for fix-and-flippers and investors. It is requested by an investor buyer who is intending to fix and flip a property within a certain time period. Typically, the sale has to occur within a year, however this can vary from title company to title company, so it's important to check when requesting a Hold Open. There are four requirements for a Hold Open:

1. The title company that insured/closed the buyer's purchase must be the same title company to close the 2nd transaction when the buyer sells.
2. The Hold Open fee has to be paid for at the time of the first closing and requested at that time.
3. Hold Opens are only for owner's title policies not for lender policies.
4. The same property has to be sold (if a multi-unit property is purchased with a hold open, the units cannot be sold separately).

A Hold Open saves the investor buyer money on the title insurance costs when the property is resold. When the investor buys a property, typically the seller will pay the title policy fee. This is negotiable on the real estate contract, however. The investor buyer will pay the Hold Open charge to title at closing. No title policy will be issued at that time for the first transaction. When the investor goes to sell during the hold open period, the title insurance company will issue an owner's title policy to the new buyer without additional costs other than the "increase in liability/sales price" charge. This can be big savings for an investor!

Example: Investor buyer buys property for \$350,000. During the next few months, the investor buyer fixes the property and sells that property for \$500,000. The investor will pay the difference between the basic title insurance rate for \$350,000 and \$500,000. In more detail, it would look like this:

Joe Buyer buys a property at \$350,000 and closes at Homestead Title. Stuart Seller pays the title premium at \$1,612.00. The Warranty Deed is executed from Stuart Seller to Joe Buyer. Joe Buyer pays an "up front" fee at closing for the Owner's policy to not be issued, but "held open." A few months later, Stuart Seller is now selling the property. He sends the deal back through Homestead Title. The basic premium for \$500,000 "improved price" is \$1,893.00.

Transaction 1: Title premium was \$1,612.00

Transaction 2: Title premium was \$1,893.00

Difference: \$281.00. This is what the Stuart Seller will pay for title insurance at closing.

Investor Seller only pays this amount for the title policy to be issued to the new buyer. Deed is executed to new buyer. If new buyer has a loan, a lenders policy is also issued at this time.

Hold Open fees and title premiums vary from underwriter to underwriter, so it's important for an investor buyer to get a good idea of the up front charge as well as the end charge at time of closing. Still, the savings are significant from the typical 50% reissue rate discount offered by most title companies for a transaction within the first year.