



**OLD REPUBLIC**  
National Title Insurance Company

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## Bulletin

**To:** Agents, Attorneys, and Direct Operation for the State of Texas  
**From:** David Rhodes, Sr. Underwriting Counsel  
**Date:** 05/02/2005  
**Re:** Flip Transaction and Danger Signs

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Flip transactions are becoming very popular. Because of the built in dangers for fraud in these transactions, you need to look at each one very carefully before you close. Most flip transactions involve an Original Seller (A) who conveys to Buyer (B), Buyer (B) then conveys to the ultimate Buyer (C) for an increased sales price. Most flip transactions are completed within a day or two of the original purchase from A.

### **Watch for these Red Flags**

- **An extremely large increase in the sales price to C.**  
There is nothing wrong with making a profit, but an excessive amount leads to law suits.
- **Inflated Appraisals**  
Know the appraiser. Check his credentials and work history if the appraisal shows a much larger value than the original sales price. Double check against the tax appraisal. If there is a large difference, there may be problems.
- **Follow the money**  
If B has to have the money from his flip to C in order to pay closing costs or sales price to A the original seller **DO NOT CLOSE.**
- **Repairs**  
Often no repairs are being done but this is used as a method to get money in B's pocket. You should require a mechanic's lien contract with a valid 3<sup>rd</sup> party lender and ask to review invoices. The policies will need the pending disbursements and completion of improvements language in Schedule B.

- **Broker Fees/Management Fees**

Broker fees must be in the range of your normal transactions. Excessive fees are a danger signal. Large or unusual management fees are an indication of fraud and should be questioned.

- **Closing Instructions**

As always, you should carefully read and follow all lender instructions. Some lenders including FHA lenders have a requirement that property be held for a minimum length of time before transfer. All other requirements should be met or waived in writing by the lender. This is an important consideration by the courts in determining title company liability if a flip transaction is challenged.

Please call your Underwriter if you have any questions or concerns about one of these transactions. Remember if it doesn't pass the smell test you need to ask questions.

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