

UNDERWRITING DIRECTIVE No. 4

TO: All Delaware Agents
FROM: Dwight E. Edwards
DATE: July 31, 2003
SUBJECT: Multiple Simultaneous Mortgage Transactions with a Single Lender

Many of our agents have been asked to close a transaction where a single lender makes both a first and second mortgage, typically with the lender providing an 80% loan-to-value first mortgage and a second mortgage, simultaneously. The end result is two mortgages with an aggregate loan-to-value in excess of 80%. This is often referred to as a "blend", and is designed to keep the borrower's payments as low as possible. While there is nothing wrong with this practice from a title insurance perspective, some agents have been requested to do certain acts associated with these transactions that are improper.

Some lenders require two policies but demand that the agent make no reference to the second mortgage on either the policy for the first mortgage (on Schedule B-II of the policy as a subordinate matter), or on the face of the HUD-1 closing statement. Agents need to be careful in these situations and prepare their HUD-1 closing statements properly. On the HUD-1 for the first mortgage, it is inappropriate to show the monies from the second mortgage as "cash to close". This creates the impression that the borrower has more equity than is factual. It is essential that the closing statement accurately discloses the facts. Also, the second mortgage must be shown on Schedule B-II of the first mortgage policy.

It bears repeating that there is nothing wrong with insuring these dual mortgage situations as long as it is done properly.

Should you have any questions, please contact an Officer of the Company.