

UNDERSTANDING PRELIMINARY REPORTS

Preliminary Title Reports:

The preliminary report will provide you with the opportunity, prior to purchase, to review matters affecting your property which will be excluded from coverage under your title insurance policy unless removed or eliminated before your purchase.

Here are some of the questions most commonly asked about preliminary reports.

Q. What is a Preliminary Report?

A. A preliminary report is a report prepared prior to issuing a policy of title insurance that shows the ownership of a specific parcel of land, together with the liens and encumbrances thereon which will not be covered under a subsequent title insurance policy.

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

A. A preliminary report contains the conditions under which the title company will issue a particular type of title insurance policy.

The preliminary report 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.

Thus, a preliminary report provides the opportunity to seek the removal of items referenced in the report which are objectionable to the buyer prior to purchase.

Q. When and how is the Preliminary Report produced?

A. Shortly after escrow is opened, the title company will begin the process involved in producing the report.

This process calls for the assembly and review of certain recorded matters relative to both the property and the parties to the transaction.

These recorded matters are listed numerically as “exceptions” in the preliminary report. They will remain exceptions from title insurance coverage unless eliminated or released prior to the transfer of title.

Q. What should I look for when reading my Preliminary Report?

A. You will be interested, primarily, in the extent of your ownership rights. This means you will want to review the ownership interest in the property you will be buying as well as any claims, restrictions or interests of other people involving the property.

The report will note in a statement of vesting the extent of the owner’s interest in the real property. The most common form of interest is “fee simple” or “fee” which is the highest type of interest an owner can have in land.

Liens, restrictions and interest of others which are being excluded from coverage will be listed numerically as “exceptions” in the preliminary report. These may be claims by creditors who have liens or liens for payment of taxes or assessments. There may also be recorded restrictions, which have been placed in a prior deed or contained in what are termed CC&R’s – Covenants, Conditions and Restrictions. Finally, interests of third parties are not uncommon and may include easements given by a prior owner, which limit your use of the property.

In addition to the limitations noted above, 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. Unlike the numbered exclusions, which are specific to the property you are buying, these are standard exceptions and exclusions appearing in the title insurance policies. The review of this section is important, as it sets forth matters which will not be covered under your title insurance policy.

Q. Will the Preliminary Report disclose the complete condition of the title to a property?

A. No. The report does not show the condition of title, but merely reports the current ownership and matters that the title company will exclude from coverage if a title insurance policy should later be issued.

Q. Is a Preliminary Report the same thing as title insurance?

A. No, a preliminary report is an offer to insure, it is not a report of a complete history of recorded documents relating to the property. 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.

These distinctions are important for the following reasons: first, no contract or liability exists until the title insurance policy is issued; second, the title insurance policy is issued to a particular insured person and others cannot claim the benefit of the policy.