CLOSING OUT HOME EQUITY LINES OF CREDIT IN THE ESCROW PROCESS

Home Equity Lines of Credit (HELOC's) can be a significant concern to title companies. This is due to HELOC's being a large source of claims. A HELOC is a revolving line of credit secured by a deed of trust on real property. There have been many instances where a HELOC was paid down to a zero balance, but was not properly closed. This allowed the previous owner of the property to still draw from the account, and incur additional debt secured real property that they just sold.

An example of this would be when an owner sells their property to a new buyer, which secured an existing line of credit. When the property was sold to the new buyer the line of credit was paid to zero, but remained open as it was not properly requested to be closed by the seller.

The seller then borrows additional money from the equity line and stops making payments. The new buyer now receives foreclosure notices in the mail on account of the seller's having incurred a new balance on the HELOC which is now unpaid.

Typically, the escrow or closing agent handling the transaction will obtain a payoff demand for the HELOC. Many times, the payoff demand will provide an additional form that will need to be signed by the borrower in order to "close" the account. If the payoff demand does not have this form attached, title companies may use their own specific form for the borrower to sign. In either case, a "close" letter or statement signed by the borrower closing the HELOC will be needed prior to closing the transaction.

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