



CHICAGO TITLE INSURANCE COMPANY

<u>TOPIC:</u>	<u>American Land Title Association (ALTA) Endorsements North Carolina Coverages as of 12-1-2006</u>
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NOTE #1: Those endorsements reflecting “-06” after the endorsement form number relate to 2006 changes to conform to the new 2006 ALTA owner and loan policies. Most changes are for consistency in paragraph references, capitalizing and other stylistic issues with the new 2006 Owner’s Policy and 2006 Loan Policy, unless otherwise noted. Though prior policy forms will be rescinded by ALTA and no longer approved forms in the near future, endorsements were created for both pre-2006 and 2006 policies for the interim.

NOTE #2: The final paragraph of all endorsements was changed 1/17/04. Revision dates below do not reflect that comprehensive revision.

NOTE #3: For purposes of these endorsements, the “attorney” means the North Carolina licensed certifying attorney unless otherwise approved by the title insurer and applicable law.

ALTA Endorsement – Form 1 (Street Assessments) (Rev. 6/1/87)

ALTA Endorsement – Form 1-06 (Street Assessments) (Adopted 06/17/06)

This endorsement is designed to insure the lender against loss or damage which it might sustain by reason of any assessments for street improvements either under construction or completed at the date of the policy which could gain priority over the insured mortgage. For issuance of this endorsement, the attorney would need to certify that, at date and time of recording, no pending or confirmed assessments were outstanding regarding the insured land. NOTE: The '06 Loan

Policy provides some coverage for lenders regarding the priority of the insured lien over assessments for street improvements under construction or completed at date of policy.

ALTA Endorsement – Form 2 (Truth in Lending) (Rev. 6/1/87)

ALTA Endorsement – Form 2-06 (Truth in Lending) (Adopted 06/17/06)

This endorsement is designed to insure affirmatively an insured under a loan policy against loss or damage sustained by reason of the exercise of the right of rescission conferred upon a mortgage borrower under the Federal Truth in Lending Act, as implemented by Regulation Z. This coverage is rarely given in North Carolina as it would require additional and complex attorney's certification in a residential context.

ALTA Endorsement – Form 3 (Zoning) (Rev. 10/17/98)

ALTA Endorsement – Form 3-06 (Zoning – Unimproved Land) (Adopted 06/17/06)

This endorsement is designed to inform the insured under an owner's or loan policy of the zoning classification under which the land falls and to insure the insured against loss or damage that may be sustained by reason of inaccuracies in the information supplied or a final judicial determination invalidating the zoning ordinance establishing such classification and resulting in the prohibition of such uses. For issuance of this endorsement, the attorney would need to provide satisfactory verification (1) of the current zoning classification of the land; (2) that the land has been so zoned for at least two months; and (3) of the specific Permitted Use for which the land is currently or intended to be used, cited exactly as set forth in the applicable zoning ordinance or regulation.

ALTA Endorsement – Form 3.1 (Zoning - Completed Structure) (Rev. 10/17/98)

ALTA Endorsement – Form 3.1-06 (Zoning – Completed Structure) (Adopted 06/17/06)

This endorsement expands the coverage given in Form 3 to insure the insured further against loss or damage that may be sustained by reason of a final judgment requiring the removal or alteration of existing structures on the land, on the grounds that they are violation of the zoning restrictions imposed on the use of the land relating to the site or floor area, set back lines, height of the building or number of parking spaces. Otherwise, zoning and subdivision matters fall within Exclusion from Coverage #1 of both the '92 and '06 ALTA Loan and Owner's Policies. Note: The '06 policies do provide for positive insurance against police power losses in instances where notices of violation or enforcement are of record. For issuance of this endorsement, the attorney would need to provide verification (1) of the current zoning classification of the land; (2) that the land has been so zoned for at least two months; (3) of the specific Permitted Use for which the land is currently or intended to be used, cited exactly as set forth in the applicable zoning ordinance or regulation; and (4) that the land is in compliance with all applicable zoning regulations, including parking requirements.

ALTA Endorsement – Form 4 (Condominium) (Rev. 3/27/92)

ALTA Endorsement – Form 4-06 (Condominium) (Adopted 06/17/06)

This endorsement is designed to provide special comprehensive title protection as to matters peculiar to condominiums. This endorsement is available to both owners and lenders, subject to review of each item of coverage. This endorsement is not intended to insure the title of the developer. For issuance of this endorsement, the attorney would verify through certifying title to the condominium unit that the condominium is duly formed and managed in compliance with applicable law, that owners' association dues have been paid current through and including closing, that the restrictions do not contain a forfeiture or reversion clause, that any violations of restrictions, encroachments of existing improvements onto easements, rights of first refusal, or options to purchase have been subordinated or waived in favor of the interests of the proposed insureds.

ALTA Endorsement – Form 4.1 (Condominium) (Adopted 10/17/92)

ALTA Endorsement – Form 4.1-06 (Condominium) (Adopted 06/17/06)

This endorsement is designed for use in those several states where legislation has given super priority status to liens for unpaid association charges. For this reason, this is not used in North Carolina.

ALTA Endorsement – Form 5 (Planned Unit Development) (Rev. 3/27/92)

ALTA Endorsement – Form 5-06 (Planned Unit Development) (Adopted 06/17/06)

This endorsement is available for use for both owner's and loan policies in some jurisdictions. The endorsement insures against loss due to violations of any restrictive covenants, encroachments, prior unpaid homeowners' association dues or outstanding rights of first refusal. For issuance of this endorsement, the attorney would verify through certifying title to the land verification that the planned community is duly formed and managed in compliance with applicable law, that owners' association dues have been paid current through and including closing, that the restrictions do not contain a forfeiture or reversion clause, that any violations of restrictions, encroachments of existing improvements onto easements, rights of first refusal, or options to purchase have been subordinated or waived in favor of the interests of the proposed insureds.

ALTA Endorsement – Form 5.1 (Planned Unit Development) (Adopted 10/17/92)

ALTA Endorsement – Form 5.1-06 (Planned Unit Development) (Adopted 06/17/06)

This endorsement is designed for use in those several states where legislation has given super priority status to liens for unpaid homeowner association charges. For this reason, this is not used in North Carolina.

ALTA Endorsement – Form 6 (Variable Rate Mortgage) (Rev. 06/01/87)

ALTA Endorsement – Form 6-06 (Variable Rate) (Adopted 06/17/06)

This endorsement offers insurance as to the validity and lien priority of mortgage provisions providing for a variable interest rate. For issuance of this endorsement in North Carolina, the

deed of trust to be insured should contain variable rate mortgage provisions in text or in rider recorded therewith, though that is not required by statute.

ALTA Endorsement – Form 6.1 (Variable Rate Mortgage Regulations) (Rev. 06/01/87)
NO NEW 2006 FORM

This endorsement offers insurance as to the validity and lien priority of mortgage provisions providing for a variable interest rate where such validity and priority depend upon compliance with particular statutes or regulations. (This form is not used in North Carolina.)

ALTA Endorsement – Form 6.2 (Variable Rate Mortgage - Negative Amortization) (Rev. 06/01/87)

ALTA Endorsement – Form 6.2-06 (Variable Rate – Negative Amortization) (Adopted 06/17/06)

This endorsement offers insurance as to the validity and lien priority of mortgage provisions providing for both a variable interest rate and negative amortization. For issuance of this endorsement in North Carolina, the deed of trust to be insured should contain variable rate mortgage provisions in text or in rider recorded therewith and must contain provisions for negative amortization of unpaid interest and charges and the maximum amount secured. NOTE: The coverage amount of the policy should be equal to the maximum principal amount which can be secured by the deed of trust (including negative amortization), typically 125% of the original principal amount, and premium will be based on this higher coverage amount.

ALTA Endorsement – Form 7 (Manufactured Housing Unit) (Rev. 6/1/87)

ALTA Endorsement – Form 7-06 (Manufactured Housing Unit) (Rev. 06/17/06)

This endorsement is designed to insure a mobile or manufactured home as part of the land, if the statutory conversion procedures have been completed, including permanent foundation and affixation to the land and filing of statutory documents to cancel the home title. It does not insure that the mobile home is real estate, just that the policy will treat it as part of the defined and covered “land.” Therefore, in North Carolina, for issuance of this endorsement, the attorney would need to provide evidence that the home has been listed (or will be listed at the next listing and appraisal period) as real property for ad valorem tax purposes, that all personal property taxes applicable have been paid, that there are no UCC financing statements outstanding regarding the home, that the home and land are owned by the same person, that the home is permanently affixed to the land with wheels, tongue and axle removed AND that, as applicable, either (1) if a Certificate of Title has been issued, but was not canceled prior to 1/1/02, an Affidavit approved by the NC Division of Motor Vehicles was filed with said Division and with the Register of Deeds, pursuant to NCGS 47-20.6, or (2) if no Certificate of Title has been issued, or a Certificate of Title was issued and canceled prior to 1/1/02, that a Declaration has been filed with the office of the Register of Deeds, in compliance with NCGS 47-20.7.

****NEW****

ALTA Endorsement – Form 7.1 (Manufactured Housing – Conversion; Loan) (Adopted 06/17/06)

ALTA Endorsement – Form 7.1-06 (Manufactured Housing – Conversion; Loan) (Adopted 06/17/06)

This endorsement provides coverage for a lender that (i) a manufactured housing unit is located on the land, (ii) has been converted to real property, (iii) the owner of the land and the unit are the same, (iv) no UCC security interest or tax, motor vehicle or other personal property lien attaches to the unit, and (v) the insured mortgage is valid and enforceable against the land and home in one foreclosure procedure. The requirements are the same as for Form 7 above.

ALTA Endorsement – Form 7.2 (Manufactured Housing – Conversion; Owners) (Adopted 06/17/06)

ALTA Endorsement – Form 7.2-06 (Manufactured Housing – Conversion; Owners) (Adopted 06/17/06)

This endorsement provides to the owner similar coverages as the Form 7.1 above (other than the mortgage lien priority and enforceability) and has the same requirements.

ALTA Endorsement – Form 8.1 (Environmental Lien Protection) (Rev. 3/12/88)

ALTA Endorsement – Form 8.1-06 (Environmental Protection Lien) (Adopted 06/17/06)

This endorsement is designed to insure a lender in situations where a mortgage is made on land used primarily for residential purposes against loss by reason of lack of priority of the lender's lien because of environmental protection liens recorded in those records which under state statutes impart constructive notice of matters relating to real estate or which are filed in the records of the clerk of the United States district court unless the lien is excepted to in Schedule B of the policy. This form also protects against lack of priority for any environmental lien provided for in any state statute in effect at date of policy unless otherwise designated in the endorsement. Issuance of this endorsement in North Carolina requires verification that no environmental protection lien is recorded in those records established under state statutes at or before recording for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without knowledge, except as set forth in Schedule B – Exceptions of this Commitment.

ALTA Endorsement – Form 9 (Restrictions, Encroachments, Minerals) (Rev. 06/17/06)

ALTA Endorsement – Form 9-06 (Restrictions, Encroachments, Minerals) (Adopted 06/17/06)

This endorsement provides a lender an assortment of coverages dealing with violations of restrictions, encroachments and future exercise of a right to use the surface of the land for the extraction of minerals. It is similar to the CLTA 100 and the Company's Comprehensive Endorsement. Especially in a commercial context, this indicates that a thorough reading and understanding of applicable covenants, conditions, and restrictions, easements and plats is needed. Issuance of this endorsement in North Carolina requires receipt of (1) current and accurate survey of the land evidencing no violation of any covenants, conditions or restrictions, no violation of any building setback lines, and no encroachment onto insured land or easements

of improvements appurtenant to adjoining lands (or approval for loan survey coverage without a current survey as that policy is in effect at the time); and (2) certification from attorney through an opinion of title that (a) the covenants, conditions or restrictions do not provide for an option to purchase, right of first refusal or the prior approval of a future purchaser or occupant, and do not provide a right of reentry, possibility of reverter or right of forfeiture; and (b) no third party currently has the present or future right to any minerals located on insured land. Owners' association dues and special assessments, if any are applicable, must be paid current through closing.

ALTA Endorsement – Form 9.1 (Restrictions, Encroachments and Minerals - Owner's Policy - Unimproved Land) (Rev. 06/17/06)

ALTA Endorsement – Form 9.1-06 (Restrictions, Encroachments, Minerals – Owner’s Policy – Unimproved Land) (Adopted 06/17/06)

This endorsement is designed to provide certain frequently requested protections for an owner of unimproved property concerning private property restrictions, encroachments and excepted minerals. Issuance of this endorsement to an owner will require receipt of (1) current and accurate survey of the land evidencing no violation of any covenants, conditions or restrictions, no violation of any building setback lines, and no encroachment onto insured land or easements of improvements appurtenant to adjoining lands; and (2) certification from attorney that (a) the covenants, conditions or restrictions do not provide for an option to purchase, right of first refusal or the prior approval of a future purchaser or occupant, and do not provide a right of reentry, possibility of reverter or right of forfeiture; and (b) no third party currently has the present or future right to any minerals located on insured land.

ALTA Endorsement – Form 9.2 (Restrictions, Encroachments and Minerals - Owner's Policy - Improved Land) (Rev. 06/17/06)

ALTA Endorsement – Form 9.2-06 (Restrictions, Encroachments, Minerals – Owner’s Policy – Improved Land) (Adopted 06/17/06)

This endorsement is designed to provide certain frequently requested protections for an owner of improved property concerning private property restrictions, encroachments and excepted minerals. Issuance of this endorsement to an owner will require receipt of (1) current and accurate survey of the land evidencing no violation of any covenants, conditions or restrictions, no violation of any building setback lines, no encroachment of improvements appurtenant to insured land onto adjoining lands or easements and no encroachment onto insured land or easements of improvements appurtenant to adjoining lands; and (2) certification from attorney that (a) the covenants, conditions or restrictions do not provide for an option to purchase, right of first refusal or the prior approval of a future purchaser or occupant, and do not provide a right of reentry, possibility of reverter or right of forfeiture; and (b) no third party currently has the present or future right to any minerals located on insured land.

NEW

ALTA Endorsement – Form 9.3 (Restrictions, Encroachments, Minerals Endorsement – Loan Policy) (Adopted 06/17/06)

ALTA Endorsement – Form 9.3-06 (Restrictions, Encroachments, Minerals Endorsement) (Adopted 06/17/06)

This endorsement to the loan policy includes the coverage under the Form 9 above, and also extends coverage to improvements constructed as of *and after* date of policy, extends coverage against exercise of mining rights and expands the exclusions regarding covenants, conditions or restrictions to maintenance, repair and remediation obligations and environmental protection liens not already reflected in the public records. Thus, the requirements are the same as for the Form 9 above and, in addition, any notice of or recorded instrument regarding environmental liens or potential mineral rights must be addressed prior to closing.

NEW

ALTA Endorsement – Form 9.4 (Restrictions, Encroachments, and Mineral Endorsement – Owner’s Policy – Unimproved Land) (Adopted 06/17/06)

ALTA Endorsement – Form 9.4-06 (Restrictions, Encroachments, and Mineral Endorsement – Owner’s Policy – Unimproved Land) (Adopted 06/17/06)

This endorsement to the owner’s policy includes the coverage under the Form 9.1 above, and also extends the coverage to “improvements,” extends coverage against exercise of mining rights and expands the exclusions regarding covenants, conditions or restrictions to maintenance, repair and remediation obligations and environmental protection liens not already reflected in the public records, similar to the Form 9.3 above. Thus, the requirements are the same as for the Form 9.1 above, and, in addition, any notice of or recorded instrument regarding environmental liens or potential mineral rights must be addressed prior to closing.

NEW

ALTA Endorsement – Form 9.5 (Restrictions, Encroachments, and Mineral Endorsement – Owner’s Policy – Improved Land) (Adopted 06/17/06)

ALTA Endorsement – Form 9.5-06 (Restrictions, Encroachments, and Mineral Endorsement – Owner’s Policy – Improved Land) (Adopted 06/17/06)

This endorsement to the owner’s policy is similar to the Form 9.2 above, and also, like the 9.4 above, extends the coverage to “improvements,” extends coverage against exercise of mining rights and expands the exclusions regarding covenants, conditions or restrictions to maintenance, repair and remediation obligations and environmental protection liens not already reflected in the public records. Thus, the requirements are the same as for the Form 9.2 above, and, in addition, any notice of or recorded instrument regarding environmental liens or potential mineral rights must be addressed prior to closing..

ALTA Endorsement – Form 10 (Assignment) (Adopted 10/21/95)

ALTA Endorsement – Form 10-06 (Assignment) (Adopted 06/17/06)

This endorsement insures the effectiveness of the assignment of mortgage but does not cover matters of record after the effective date of the original loan policy, except to insure that there have been no releases or conveyances that do appear of record. Issuance of this endorsement

will require receipt of (1) verification of assignment of indebtedness(es) secured by deed of trust insured, and (2) attorney certification of current vesting of title to the insured deed of trust and any amendments, modifications, assignments or other matters affecting the insured deed of trust through and including proposed effective date of endorsement. Any relevant matters shown therein will be included in the final Endorsement.

ALTA Endorsement – Form 10.1 (Assignment and Date Down) (Adopted 10/21/95)

ALTA Endorsement – Form 10.1-06 (Assignment and Date Down) (Adopted 06/17/06)

This endorsement covers the same items as Form 10 and gives additional coverage over certain matters occurring after the original effective date of the policy and before the date of endorsement. These matters, unless specifically shown in the endorsement, include: real estate taxes or assessments; priority over intervening defects liens or encumbrances; and federal tax liens or encumbrances. For issuance of this endorsement, the attorney must provide (1) verification of assignment of indebtedness(es) secured by deed of trust insured, (2) attorney updated certification of title, and (3) certification of current vesting of title to the insured deed of trust and any amendments, modifications, assignments or other matters affecting the insured deed of trust through and including proposed effective date of endorsement. Any relevant matters shown therein will be included in the final Endorsement to be issued hereunder.

ALTA Endorsement – Form 11 (Mortgage Modification) (Adopted 10/19/96)

ALTA Endorsement – Form 11-06 (Mortgage Modification) (Adopted 06/17/06)

This endorsement insures the lender that the modification of the insured mortgage evidenced by the document referred to within the endorsement does not impair the validity, enforceability or priority of the insured mortgage. For issuance of this endorsement, attorney must provide (1) verification of recordation of satisfactory modification regarding deed of trust insured, and (2) attorney's certification of title to the land including any amendments, modifications, assignments or other matters affecting the insured deed of trust through and including proposed effective date of endorsement. Any relevant matters shown therein will be included in the final Endorsement.

Note - If significant terms are changed such that the loan is in effect a new loan rather than just a minor modification of the old one, the "modification" may actually be considered a potential novation -- a new loan in reality, though being labeled a modification in the documents. We have very little law on what constitutes a novation in North Carolina, though many other states have significant case law. If the loan amount and, thus, the Amount of Coverage is to be increased, or if substantial changes are being made (a potential novation), intervening matters may establish priority so they would be shown in Schedule B - Exceptions, lien waivers / subordinations may be required, and additional premium will be required.

If the loan amount is not increased, interest rate is not increased (except according to the variable rate terms of the original note), the maturity is not being extended substantially and other changes are only minor, the original recorded deed of trust may still retain its priority over intervening matters, including any intervening mechanics' or materialmen's potential claims for worked started after the original deed of trust recording. If this priority is retained, any such intervening matters would, therefore, be shown as subordinate matters in the loan policy.

ALTA Endorsement – Form 12 (Aggregation) (Adopted 10/19/96)

ALTA Endorsement – Form 12-06 (Aggregation) (Adopted 06/17/06)

This endorsement has also been called the "Tie-in" endorsement. Frequently, mortgages covering many parcels in different recording districts or jurisdictions are recorded for the full amount of the mortgage. Instead of combining all of the parcels into one large policy, this endorsement allows an insurer to issue a number of policies for lesser amounts but to aggregate the coverage under the combined policies so that the insured can take advantage of any increases in the value of a particular parcel should there be a loss. For issuance of this endorsement, the title insurer will need specific identification of all policies (policy number/state/county/amount) issued insuring the liens of deed(s) or deed(s) of trust on multiple properties and verification that the deed(s) of trust the lien(s) of which are to be insured contain cross-default and cross-collateralization provisions securing the same indebtedness(es), such that, in the event of default, the insured lender may foreclose on any one or all properties.

ALTA Endorsement – Form 13 (Leasehold - Owners) (Adopted 10/13/01)

ALTA Endorsement – Form 13 (Leasehold – Owner’s) (Adopted 06/17/06)

This endorsement is an endorsement providing additional tailored coverages for the lessee-owner of a leasehold estate, replacing the former ALTA Leasehold Owner's Policy. Issuance requires receipt of verification of recordation of satisfactory lease (or memorandum thereof) evidencing the leasehold interest to be insured.

ALTA Endorsement – Form 13.1 (Leasehold -- Loan) (Adopted 10/13/01)

ALTA Endorsement – Form 13.1-06 (Leasehold – Loan) (Adopted 06/17/06)

This endorsement is an endorsement providing additional tailored coverages for the lender for which the security interest is in a leasehold estate, replacing the former ALTA Leasehold Loan Policy. Issuance requires receipt of verification of recordation of satisfactory lease (or memorandum thereof) and leasehold deed of trust evidencing the leasehold interest to be insured.

ALTA Endorsement – Form 14 (Future Advance - Priority) (Adopted 10/22/03)

ALTA Endorsement – Form 14-06 (Future Advance – Priority) (Adopted 06/17/06)

This endorsement provides for continued priority of future advances, which are otherwise post-closing matters not included within the covered risks under the ALTA policies. In North Carolina, for issuance of this coverage, the attorney must provide verification that the insured deed of trust contains notice that it will secure future advances (including revolving line of credit, if applicable), states the maximum principal amount and, as applicable, states either (1) the current amount advanced at closing, specifying that all advances must be made within 15 years from the date thereof (in compliance with NCGS 45-67 et seq.) for future advance or construction loan transactions or (2) that it secures an equity line of credit and that it is governed by the provisions of Chapter 45, Article 9 of the North Carolina General Statutes (NCGS 45-81 et seq.) for an equity line of credit.

Note: Although these North Carolina statutes provide for continued priority of draws and redraws under the deed of trust if it contains appropriate provisions, under 26 U.S.C. 6321-6323(c)(4), the IRS position is that each advance loses priority if made over 45 days after filing of a federal tax lien. So the future advance and line of credit endorsements both include an exclusion for federal tax liens.

ALTA Endorsement – Form 14.1 (Future Advance -- Knowledge) (10/22/03)

ALTA Endorsement – Form 14.1-06 (Future Advance – Knowledge) (Adopted 06/17/06)

This endorsement provides the same coverage as Form 14 above and is subject to the same requirements, but excludes coverage for advances made after insured has knowledge of an intervening lien, encumbrance or other matter affecting title.

ALTA Endorsement – Form 14.2 (Future Advance – Letter of Credit) (Adopted 10/22/03)

ALTA Endorsement – Form 14.2-06 (Future Advance – Letter of Credit) (Adopted 06/17/06)

This endorsement provides similar coverage of future advances as the Form 14 above in situations where the “agreement” involves a letter of credit, surety or reimbursement agreement. So, in addition to the requirements of the Form 14 above, for issuance of this endorsement, the attorney must provide a copy of the Letter of Credit and verification that (a) the Letter of Credit has been issued and fully executed prior to or simultaneously with closing and recording of the insured deed of trust and (b) the insured deed of trust adequately references and incorporates the terms of the Letter of Credit.

NEW

ALTA Endorsement – Form 14.3 (Future Advance – Reverse Mortgage) (Adopted 06/17/06)

ALTA Endorsement – Form 14.3-06 (Future Advance – Reverse Mortgage) (Adopted 06/17/06)

This endorsement provides coverage to a lender on a reverse mortgage transaction pursuant to the HUD Home Equity Conversion Mortgage Program requirements and the North Carolina Reverse Mortgage Act, Article 21 of Chapter 53 of the North Carolina General Statutes. For issuance of this endorsement, the attorney must verify that the borrowers are at least 62 years of age, that the deed(s) of trust (one to the lender, one to HUD) comply with North Carolina’s future advance statute (NCGS 45-68 *et seq.* or NCGS 45-81 *et seq.*), that the deed of trust to be insured contains provisions identifying that it as a Reverse Mortgage in compliance with the Act as well as the maximum amount to be secured.

Nonimputation Endorsements

These endorsements are designed to protect a "new investor" (an innocent party purchasing some or all of the equity interest, i.e. stock, memberships, partnership interests) in the title-holding entity which owns the land (herein the “Entity”) against the acts of "existing investors" (outgoing shareholders, members, partners, officers or directors which might be imputed to the entity / insured owner by operation of law). Otherwise, Exclusions from Coverage items 3(a) and (b) of the ALTA Owner's Policy ('92 and '06) and ALTA Loan Policy ('92 and '06)

exclude matters suffered, assumed or agreed to by the insured Entity or known to the insured Entity but not disclosed to the title insurer. Examples might include an unrecorded contract to sell or lease the property or for construction on the property. In addition, since this is a transfer of an equity interest in the Entity, no deed is recorded so the new investor cannot gain priority under the recording statute against subsequent recorded or unrecorded matters. So the new investor may request a Non-Imputation Endorsement for the title insurer to protect them against these unrecorded matters incurred by the existing investors.

For example, A is purchasing stock in Entity from B, who has been a shareholder, officer and director of Entity. At law, B could bind Entity to certain acts, by operation of law and imputation of B's knowledge to Entity, such as if B had signed a contract to sell property of Entity and did not tell other officers or directors of Entity or A. A wants to be protected that B did not bind Entity to anything not of record that would affect Entity's interest in the property.

Three types of endorsement are available:

- (1) Full Equity Transfer (ALTA Endorsement Forms 15 and 15-06);
- (2) Equity interest is being purchased directly from Entity (ALTA Endorsement Forms 15.1 and 15.1-06); and
- (3) Equity interest is being purchased from an outgoing equity interest holder (ALTA Endorsement Forms 15.2 and 15.2-06).

If separate policies insuring the incoming equity purchaser and the Entity are to be issued, each should contain a provision coordinating benefits, such as: "It is expressly understood that the amount of insurance under this policy shall be reduced by any amount the Company may pay under Owners Policy No. *, and the amount so paid shall be deemed a payment under this policy to the insured."

Non-imputation coverage is a substantial, non-record risk for which the only protection to the title insurer and the purchaser are indemnities from financially viable parties. Therefore, Non-Imputation Affidavits and Indemnities will be required from the existing investor(s), against whose acts the title insurer may be asked to provide coverage as well as officers, directors, managing members and general partners who may have actual knowledge of any potential acts which would be binding on the Entity. Any particular affiant's statement that they have "no knowledge" or "did not create" may be insufficient, absent sufficient full affidavits from others, because the title insurer will need reasonable assurance of fact, not just a limitation to actual knowledge. Key questions:

1. How much of an interest is being transferred and was the transferor an officer, director, managing partner or managing member? A minor interest holder without any management authority would have far less ability to bind the Entity by imputation of knowledge, as compared to a controlling shareholder who was also President, for example.
2. How much of an interest is the new investor purchasing?
3. *ADDITIONAL INDEMNITIES* may be required from other parties (whether or not they have knowledge or can give an affidavit) who, in effect, financially vouch for the

outgoing equity interest holder(s) and have sufficient financial strength for the title insurer to rely upon their indemnities.

ALTA Endorsement – Form 15 (Non-Imputation – Full Equity Transfer) (Adopted 10/22/03)

ALTA Endorsement – Form 15-06 (Nonimputation – Full Equity Transfer) (Adopted 06/17/06)

This endorsement provides coverage of the title-holding entity against loss due to knowledge imputed to title-holding entity solely by operation of law due to knowledge or action of named outgoing partners, members, shareholders, officers or directors on transfer of the entire equity ownership to new incoming partners, shareholders or members. For issuance of this endorsement, the title insurer would need (1) verification that the full equity interest in the proposed insured owner (entity) is to be transferred to the incoming equity purchaser for full value without knowledge by the said purchaser of any defect, lien, encumbrance, adverse claim or other matter affecting title to the land, not disclosed to Company prior to closing; and (2) a satisfactory Non-Imputation Affidavit and Indemnity by (and satisfactory assurances regarding) all outgoing equity holders that they know of no defect, lien, encumbrance, adverse claim or other matter affecting title to the land, not disclosed to Company prior to closing, which would be imputed to proposed insured owner.

ALTA Endorsement – Form 15.1 (Non-Imputation – Additional Insured) (Adopted 10/22/03)

ALTA Endorsement – Form 15.1-06 (Nonimputation – Additional Insured) (Adopted 06/17/06)

This endorsement provides coverage of incoming purchasing partner, member, or shareholder purchasing an interest in the title-holding entity from the entity, for their purchased percentage interest only against loss due to knowledge imputed to the title-holding entity solely by operation of law due to knowledge or action of named shareholders, partners, members, shareholders, officers or directors. Since the policy itself insures the title-holding entity, they must consent to this coverage being for the benefit of an individual partner, member or shareholder, rather than the title-holding entity. For issuance of this endorsement, the title insurer would need (1) verification that the equity interest in the proposed insured owner (entity) is to be transferred to the proposed additional insured incoming equity purchaser for full value without knowledge by said purchaser of any defect, lien, encumbrance, adverse claim or other matter affecting title to the land, not disclosed to Company prior to closing; and (2) a satisfactory Non-Imputation Affidavit and Indemnity by (and satisfactory assurances regarding) all outgoing equity holders (and any remaining general partners if a partnership) that they know of no defect, lien, encumbrance, adverse claim or other matter affecting title to the land, not disclosed to Company prior to closing, which would be imputed to proposed insured(s).

ALTA Endorsement – Form 15.2 (Non-Imputation – Partial Equity Transfer) (Adopted 10/22/03)

ALTA Endorsement – Form 15.2-06 (Nonimputation – Partial Equity Transfer) (Adopted 06/17/06)

This endorsement provides coverage of incoming purchasing partner, member, or shareholder, purchasing an interest in the title-holding entity from an outgoing partners, members or shareholder, against loss due to knowledge imputed to such entity solely by operation of law due to knowledge or action of named outgoing partners, members, shareholders, officers or directors. For issuance of this endorsement, the title insurer would need: (1) verification that the equity interest in the owning entity is to be transferred to the proposed insured incoming equity purchaser for full value without knowledge by said purchaser of any defect, lien, encumbrance, adverse claim or other matter affecting title to the land, not disclosed to Company prior to closing; (2) a satisfactory Non-Imputation Affidavit and Indemnity by (and satisfactory assurances regarding) all outgoing equity holders (and any remaining general partners if a partnership) that they know of no defect, lien, encumbrance, adverse claim or other matter affecting title to the land, not disclosed to Company prior to closing, which would be imputed to the owning entity; and (3) agreement of the owning entity and proposed insured as to coordination of benefits between ownership policy and policy regarding equity interest to be issued hereunder.

ALTA Endorsement – Form 16 (Mezzanine Financing) (Adopted 10/22/03)

ALTA Endorsement – Form 16-06 (Mezzanine Financing) (Adopted 06/17/06)

This endorsement provides for direct claim of mezzanine lender on owner's policy in property not serving as security interest, but owned by borrower under mezzanine financing arrangement. In a mezzanine financing situation, no deed of trust to the particular lender is actually delivered on the property (though typically the property is already encumbered by outstanding mortgage(s) which are to be excepted in Schedule B of the title insurance policy). The lender makes the loan directly to the equity holder(s) in the entity which holds title to the property or to the entity itself, usually secured by pledges of the ownership interests and other agreements. No loan policy is applicable. The only title insurance policy is an ALTA Owners Policy in normal form, without any provision for this mezzanine lender's potential interest *other than the attachment and incorporation of the Mezzanine Financing Endorsement*. The Endorsement provides several basic coverages *to the lender*:

- Assignment of right to receive any loss payments under the policy
- Right to approve (or not) any policy amendment
- Limited nonimputation coverage (paragraph 4) in the event the lender acquires some or all of the equity interests in the insured entity which holds title to the land
- Assurance that the coverage will continue notwithstanding conveyance to the lender of some or all of the equity interests in the insured entity which holds title to the land (a limited form of "fairway" coverage). The ALTA 16 provides this coverage generally (paragraph 5) or a modified endorsement may be issued specifying the particular pledge or other document executed at the time of closing which sets forth the conditions and terms governing a potential future assignment of equity interest.

The policy can be issued to show both the owner (as insured and as vested titleholder) and to show lender as additional insured *only*. However, if a separate *original* owner's policy must be delivered to the lender, both policies should contain cross-reference provisions that this is a single coverage, such as coordination of benefits or Loss Payment provisions (discussed under NonImputation coverage above). For issuance of this endorsement, the title insurer would need verification of (1) agreement of insured to assign policy protections to lender by execution of endorsement and to delivery of original owner's policy with endorsement to lender, and (2) a satisfactory Non-Imputation Affidavit and Indemnity by (and satisfactory assurances regarding) equity holders of owner-insured (including general partners if a partnership) that they know of no defect, lien, encumbrance, adverse claim or other matter affecting title to the land, not disclosed to Company prior to closing, which would be imputed to the insured or proposed insured lender.

ALTA Endorsement – Form 17 (Access and Entry) (Adopted 10/22/03)

ALTA Endorsement – Form 17-06 (Access and Entry) (Adopted 06/17/06)

This endorsement provides coverage against loss due to lack of access to named open, public street, including curb cuts. For issuance of this endorsement, the title insurer would need verification satisfactory to the insurer and a current survey reflecting: (1) The name of the public street which provides access to the land; (2) that the street is in fact a physically open public street, maintained by a public authority (city or state); (3) that the land abuts thereon; (4) that access is not prohibited or limited in any way, either legally (such as controlled access) or physically (i.e. no physical impediment to vehicular or pedestrian access) and (5) insured has right to use existing curb cuts or entries, if any, along that portion of the street abutting the land.

ALTA Endorsement – Form 17.1 (Indirect Access and Entry) (Adopted 1/17/04)

ALTA Endorsement – Form 17.1-06 (Indirect Access and Entry) (Adopted 06/17/06)

This endorsement provides coverage against loss due to lack of access over a private easement or right-of-way to named open, public street, including curb cuts. For issuance of this endorsement, the title insurer would need verification satisfactory to the insurer and a current survey reflecting: (1) The name or identification of the private access easement ("easement") to be insured and name of the public street ("street") to which such easement provides access; (2) that the easement is created by duly recorded instrument; (3) title to the easement is certified such that same can be identified as an insured parcel under Schedule A of the policy, and exception taken to any relevant matters related thereto including the terms and conditions of the creating instrument; (4) that the street is in fact a physically open public street, maintained by a public authority (city or state); (5) that the land abuts the easement and the easement abuts the street; (6) that access over the easement onto the street is not prohibited or limited in any way, either legally (such as controlled access) or physically (i.e. no physical impediment to vehicular or pedestrian access) and (7) insured has the right to use existing curb cuts or entries, if any, along the easement or street.

ALTA Endorsement – Form 18 (Single Tax Parcel) (Adopted 10/22/03)

ALTA Endorsement – Form 18-06 (Single Tax Parcel) (Adopted 06/17/06)

This endorsement provides coverage that land is single separate tax parcel, not included within a larger parcel. For issuance of this endorsement, the title insurer will need certification from attorney that all of insured land is covered within the tax parcel number(s) assigned to said land and that the number(s) do(es) not include any additional land.

ALTA Endorsement – Form 18.1 (Multiple Tax Parcel) (Adopted 10/22/03)

ALTA Endorsement – Form 18.1-06 (Multiple Tax Parcel) (Adopted 06/17/06)

This endorsement identifies the actual tax parcel identification numbers of multiple parcels, as well as providing assurance regarding easements. For issuance of this endorsement, the title insurer will need certification from attorney as to tax identification numbers covering insured land, that all of insured land is covered within said numbers and that the numbers do not include any additional land. NOTE: If an easement is to be insured, the easement interest should be listed for ad valorem tax purposes in the name of the proposed insured easement owner.

ALTA Endorsement – Form 19 (Contiguity – Multiple Parcels) (Adopted 10/22/03)

ALTA Endorsement – Form 19 (Contiguity – Multiple Parcels) (Adopted 06/17/06)

This endorsement provides assurances regarding contiguous boundary lines of multiple parcels being insured. For issuance of this endorsement, the title insurer will need a current survey or other satisfactory information regarding the parcels to be insured evidencing that the parcels are contiguous with no gaps, strips or gores separating any of the contiguous boundary lines.

ALTA Endorsement – Form 19.1 (Contiguity – Single Parcel) (Adopted 10/22/03)

ALTA Endorsement – Form 19.1-06 (Contiguity – Single Parcel) (Adopted 06/17/06)

This endorsement provides assurances regarding contiguity of insured parcel to other parcels, not insured under the policy. For issuance of this endorsement, the title insurer will need a current survey or other satisfactory information regarding the parcels to be insured evidencing that the parcel(s) are contiguous to specifically identified parcel(s) not insured hereunder with no gaps, strips or gores separating any of the contiguous boundary lines.

ALTA Endorsement – Form 20 (First Loss – Multiple Parcel Transactions) (Adopted 4/19/04)

ALTA Endorsement – Form 20 (First Loss – Multiple Parcel Transactions) (Adopted 06/17/06)

This endorsement allows for recognition of a “loss” in a multi-site coverage, if any matter covered by the policy for which a claim is made would decrease the value of all of the collateral providing security for the loan below the outstanding loan amount, without requiring acceleration of the debt and foreclosure of all properties.

ALTA Endorsement – Form 21 (Creditors’ Rights) (Adopted 4/19/04)

ALTA Endorsement – Form 21-06 (Creditors’ Rights) (Adopted 06/17/06)

This endorsement provides insurance against certain losses due to a fraudulent transfer or a preference under federal bankruptcy, state insolvency or similar creditors' rights laws, which risks are otherwise Exclusions from Coverage under the ALTA Owner's Policy (10-17-92) and/or the ALTA Loan Policy (10-17-92). Issuance of this endorsement requires prior approval by the appropriate official(s) of the title insurer, depending on the nature of the transaction. In order to obtain that authorization, the following must be provided to Company: A description of the nature of the transaction, which needs to include, but not be limited to (a) the structure of the transaction (antecedent debt, upstream or downstream financing, sale-leaseback, leverage buyout, etc.); (b) names and affiliations of parties to or connected with the transaction; (c) the consideration to be paid, including the source of funds (if any); (d) the intended use of proceeds of any loan to be insured; (e) any facts which bear upon the financial status of the borrower or seller; and (f) any additional information which may materially affect the nature of the risk to be insured. Upon receipt of this information, our commitment is subject to additional requirements and exceptions arising from a review of said disclosure.

NEW

ALTA Endorsement – Form 22 (Location) (Adopted 06/17/06)

ALTA Endorsement – Form 22-06 (Location) (Adopted 06/17/06)

This endorsement provides assurances against loss if the property described in Schedule A is not located at an identified address at Date of Policy or is not of the general type of improvement (residence, apartment building, or commercial office building, for example, and not details such as square footage, number of floors or quality or type of construction). For issuance of this endorsement, the attorney should provide a verification of the current street address of insured land according to the numbering system in use in the jurisdiction in which the land is located, whether by survey or affidavit or other satisfactory evidence.

*****NEW*****

ALTA Endorsement – Form 22.1 (Location and Map) (Adopted 06/17/06)

ALTA Endorsement – Form 22.1-06 (Location and Map) (Adopted 06/17/06)

This endorsement provides assurances against loss if the property described in Schedule A is not located at an identified street address at Date of Policy or is not the property shown on a map or plat (presumably the recorded plat referenced in the legal description) *attached to the policy* or is not of the general type of improvement (residence, apartment building, or commercial office building, for example, and not details such as square footage, number of floors or quality or type of construction. For issuance of this endorsement, the title insurer will need a current survey depicting all improvements located on insured land and setting forth the current street address of insured land according to the numbering system in use in the jurisdiction in which the land is located. This type of endorsement has rarely been used in North Carolina since historically title insurers do not attach maps or plats to policies.