

AN ACT concerning insurance.

**Be it enacted by the People of the State of Illinois,
represented in the General Assembly:**

Section 5. The Title Insurance Act is amended by changing Sections 3 and 16 and by adding Section 16.1 as follows:

(215 ILCS 155/3) (from Ch. 73, par. 1403)

Sec. 3. As used in this Act, the words and phrases following shall have the following meanings unless the context requires otherwise:

(1) "Title insurance business" or "business of title insurance" means:

(A) Issuing as insurer or offering to issue as insurer title insurance; and

(B) Transacting or proposing to transact one or more of the following activities when conducted or performed in contemplation of or in conjunction with the issuance of title insurance;

(i) soliciting or negotiating the issuance of title insurance;

(ii) guaranteeing, warranting, or otherwise insuring the correctness of title searches for all instruments affecting titles to real property, any interest in real property, cooperative units and

proprietary leases, and for all liens or charges affecting the same;

(iii) handling of escrows, settlements, or closings;

(iv) executing title insurance policies;

(v) effecting contracts of reinsurance;

(vi) abstracting, searching, or examining titles;

or

(vii) issuing insured closing letters or closing protection letters;

(C) Guaranteeing, warranting, or insuring searches or examinations of title to real property or any interest in real property, with the exception of preparing an attorney's opinion of title; or

(D) Guaranteeing or warranting the status of title as to ownership of or liens on real property and personal property by any person other than the principals to the transaction; or

(E) Doing or proposing to do any business substantially equivalent to any of the activities listed in this subsection, provided that the preparation of an attorney's opinion of title pursuant to paragraph (1)(C) is not intended to be within the definition of "title insurance business" or "business of title insurance".

(1.5) "Title insurance" means insuring, guaranteeing, warranting, or indemnifying owners of real or personal property

or the holders of liens or encumbrances thereon or others interested therein against loss or damage suffered by reason of liens, encumbrances upon, defects in, or the unmarketability of the title to the property; the invalidity or unenforceability of any liens or encumbrances thereon; or doing any business in substance equivalent to any of the foregoing. "Warranting" for purpose of this provision shall not include any warranty contained in instruments of encumbrance or conveyance. Title insurance is a single line form of insurance, also known as monoline. An attorney's opinion of title pursuant to paragraph (1)(C) is not intended to be within the definition of "title insurance".

(2) "Title insurance company" means any domestic company organized under the laws of this State for the purpose of conducting the business of title insurance and any title insurance company organized under the laws of another State, the District of Columbia or foreign government and authorized to transact the business of title insurance in this State.

(3) "Title insurance agent" means a person, firm, partnership, association, corporation or other legal entity registered by a title insurance company and authorized by such company to determine insurability of title in accordance with generally acceptable underwriting rules and standards in reliance on either the public records or a search package prepared from a title plant, or both, and authorized by such title insurance company in addition to do any of the following:

act as an escrow agent pursuant to subsections (f), (g), and (h) of Section 16 of this Act, solicit title insurance, collect premiums, or issue title insurance commitments reports, binders or commitments to insure and policies, and endorsements of the title insurance company; ~~in its behalf~~, provided, however, the term "title insurance agent" shall not include officers and salaried employees of any title insurance company.

(4) "Producer of title business" is any person, firm, partnership, association, corporation or other legal entity engaged in this State in the trade, business, occupation or profession of (i) buying or selling interests in real property, (ii) making loans secured by interests in real property, or (iii) acting as broker, agent, attorney, or representative of natural persons or other legal entities that buy or sell interests in real property or that lend money with such interests as security.

(5) "Associate" is any firm, association, partnership, corporation or other legal entity organized for profit in which a producer of title business is a director, officer, or partner thereof, or owner of a financial interest, as defined herein, in such entity; any legal entity that controls, is controlled by, or is under common control with a producer of title business; and any natural person or legal entity with whom a producer of title business has any agreement, arrangement, or understanding or pursues any course of conduct the purpose of which is to evade the provisions of this Act.

(6) "Financial interest" is any ownership interest, legal or beneficial, except ownership of publicly traded stock.

(7) "Refer" means to place or cause to be placed, or to exercise any power or influence over the placing of title business, whether or not the consent or approval of any other person is sought or obtained with respect to the referral.

(8) "Escrow Agent" means any title insurance company or any title insurance agent, including independent contractors of either, acting on behalf of a title insurance company, which receives deposits, in trust, of funds or documents, or both, for the purpose of effecting the sale, transfer, encumbrance or lease of real property to be held by such escrow agent until title to the real property that is the subject of the escrow is in a prescribed condition. An escrow agent conducting closings shall be subject to the provisions of paragraphs (1) through (4) of subsection (e) of Section 16 of this Act.

(9) "Independent Escrowee" means any firm, person, partnership, association, corporation or other legal entity, other than a title insurance company or a title insurance agent, which receives deposits, in trust, of funds or documents, or both, for the purpose of effecting the sale, transfer, encumbrance or lease of real property to be held by such escrowee until title to the real property that is the subject of the escrow is in a prescribed condition. Federal and State chartered banks, savings and loan associations, credit unions, mortgage bankers, banks or trust companies authorized

to do business under the Illinois Corporate Fiduciary Act, licensees under the Consumer Installment Loan Act, real estate brokers licensed pursuant to the Real Estate License Act of 2000, as such Acts are now or hereafter amended, and licensed attorneys when engaged in the attorney-client relationship are exempt from the escrow provisions of this Act. "Independent Escrowee" does not include employees or independent contractors of a title insurance company or title insurance agent authorized by a title insurance company to perform closing, escrow, or settlement services.

(10) "Single risk" means the insured amount of any title insurance policy, except that where 2 or more title insurance policies are issued simultaneously covering different estates in the same real property, "single risk" means the sum of the insured amounts of all such title insurance policies. Any title insurance policy insuring a mortgage interest, a claim payment under which reduces the insured amount of a fee or leasehold title insurance policy, shall be excluded in computing the amount of a single risk to the extent that the insured amount of the mortgage title insurance policy does not exceed the insured amount of the fee or leasehold title insurance policy.

(11) "Department" means the Department of Financial and Professional Regulation.

(12) "Secretary" means the Secretary of Financial and Professional Regulation.

(13) "Insured closing letter" or "closing protection

letter" means an indemnification or undertaking to a party to a real property ~~estate~~ transaction, from a principal such as a title insurance company ~~or similar entity~~, setting forth in writing the extent of the principal's responsibility for intentional misconduct or errors in closing the real property ~~estate~~ transaction on the part of a settlement agent, such as a title insurance agent or other settlement service provider, and includes protection afforded pursuant to subsections (f), (g), and (h) of Section 16 and Section 16.1 of this Act even if such protection is afforded by contract.

(14) "Residential real property" means a building or buildings consisting of one to 4 residential units or a residential condominium unit where at least one of the residential units or condominium units is occupied or intended to be occupied as a residence by the purchaser or borrower, or in the event that the purchaser or borrower is the trustee of a trust, by a beneficiary of that trust.

(Source: P.A. 94-893, eff. 6-20-06; 95-570, eff. 8-31-07.)

(215 ILCS 155/16) (from Ch. 73, par. 1416)

Sec. 16. Title insurance agents.

(a) No person, firm, partnership, association, corporation or other legal entity shall act as or hold itself out to be a title insurance agent unless duly registered by a title insurance company with the Secretary.

(b) Each application for registration shall be made on a

form specified by the Secretary and prepared in duplicate by each title insurance company which the agent represents. The title insurance company shall retain the copy of the application and forward the original to the Secretary with the appropriate fee.

(c) Every applicant for registration, except a firm, partnership, association or corporation, must be 18 years or more of age.

(d) Registration shall be made annually by a filing with the Secretary; supplemental registrations for new title insurance agents to be added between annual filings shall be made from time to time in the manner provided by the Secretary; registrations shall remain in effect unless revoked or suspended by the Secretary or voluntarily withdrawn by the registrant or the title insurance company.

(e) Funds deposited in connection with any escrows, settlements, or closings shall be deposited in a separate fiduciary trust account or accounts in a bank or other financial institution insured by an agency of the federal government unless the instructions provide otherwise. The funds shall be the property of the person or persons entitled thereto under the provisions of the escrow, settlement, or closing and shall be segregated by escrow, settlement, or closing in the records of the escrow agent. The funds shall not be subject to any debts of the escrowee and shall be used only in accordance with the terms of the individual escrow,

settlement, or closing under which the funds were accepted.

Interest received on funds deposited with the escrow agent in connection with any escrow, settlement, or closing shall be paid to the depositing party unless the instructions provide otherwise.

The escrow agent shall maintain separate records of all receipts and disbursements of escrow, settlement, or closing funds.

The escrow agent shall comply with any rules adopted by the Secretary pertaining to escrow, settlement, or closing transactions.

(f) A title insurance agent shall not act as an escrow agent in a nonresidential real property transaction where the amount of settlement funds on deposit with the escrow agent is less than \$2,000,000 or in a residential real property transaction unless the title insurance agent, title insurance company, or another authorized title insurance agent has committed for the issuance of title insurance in that transaction and the title insurance agent is authorized to act as an escrow agent on behalf of the title insurance company for which the commitment for title insurance has been issued. The authorization under the preceding sentence shall be given either (1) by an agency contract with the title insurance company which contract, in compliance with the requirements set forth in subsection (g) of this Section, authorizes the title insurance agent to act as an escrow agent on behalf of the

title insurance company or (2) by a closing protection letter in compliance with the requirements set forth in Section 16.1 of this Act, issued by the title insurance company to the seller, buyer, borrower, and lender. A closing protection letter shall not be issued by a title insurance agent. The provisions of this subsection (f) shall not apply to the authority of a title insurance agent to act as an escrow agent under subsection (g) of Section 17 of this Act.

(g) If an agency contract between the title insurance company and the title insurance agent is the source of the authority under subsection (f) of this Section for a title insurance agent to act as escrow agent for a real property transaction, then the agency contract shall provide for no less protection from the title insurance company to all parties to the real property transaction than the title insurance company would have provided to those parties had the title insurance company issued a closing protection letter in conformity with Section 16.1 of this Act.

(h) A title insurance company shall be liable for the acts or omissions of its title insurance agent as an escrow agent if the title insurance company has authorized the title insurance agent under subsections (f) and (g) of this Section 16 and only to the extent of the liability undertaken by the title insurance company in the agency agreement or closing protection letter. The liability, if any, of the title insurance agent to the title insurance company for acts and omissions of the title

insurance agent as an escrow agent shall not be limited or otherwise modified because the title insurance company has provided closing protection to a party or parties to a real property transaction escrow, settlement, or closing. The escrow agent shall not charge a fee for protection provided by a title insurance company to parties to real property transactions under subsections (f) and (g) of this Section 16 and Section 16.1, but shall collect from the parties the fee charged by the title insurance company and shall promptly remit the fee to the title insurance company. The title insurance company may charge the parties a reasonable fee for protection provided pursuant to subsections (f) and (g) of this Section 16 and Section 16.1 and shall not pay any portion of the fee to the escrow agent. The payment of any portion of the fee to the escrow agent by the title insurance company, shall be deemed a prohibited inducement or compensation in violation of Section 24 of this Act.

(i) The Secretary shall adopt and amend such rules as may be required for the proper administration and enforcement of this Section 16 consistent with the federal Real Estate Settlement Procedures Act and Section 24 of this Act.

(Source: P.A. 94-893, eff. 6-20-06.)

(215 ILCS 155/16.1 new)

Sec. 16.1. Closing or settlement protection.

(a) Notwithstanding the provisions of item (iii) of

paragraph (B) of subsection (1) and subsections (3) and (8) of Section 3 and Section 16 of this Act, a title insurance company or title insurance agent is not authorized to act as an escrow agent in a nonresidential real property transaction where the amount of settlement funds on deposit with the escrow agent is less than \$2,000,000 or in a residential real property transaction unless as part of the same transaction a commitment, binder, or title insurance policy and closing protection letters protecting the buyer's or borrower's, lender's, and seller's interests have been issued by the title insurance company on whose behalf the commitment, binder, or title insurance policy has been issued. Closing protection letters are not required when the authorization for the title insurance agent to act as an escrow agent is given by an agency contract with the title insurance company pursuant to subsections (f), (g), and (h) of Section 16 of this Act, but shall be issued by the title insurance company upon the request of a party to a nonresidential real property transaction where the amount of settlement funds on deposit with the escrow agent is less than \$2,000,000 or in a residential real property transaction.

(b) Unless otherwise agreed to between a title insurance company and a protected person or entity, a closing protection letter under this Section shall indemnify all parties to a real property transaction against actual loss, not to exceed the amount of the settlement funds deposited with the escrow agent.

The closing protection letter shall in any event indemnify all parties to a real property transaction when such losses arise out of:

(1) failure of the escrow agent to comply with written closing instructions to the extent that they relate to (A) the status of the title to an interest in land or the validity, enforceability, and priority of the lien of a mortgage on an interest in land, including the obtaining of documents and the disbursement of funds necessary to establish the status of title or lien or (B) the obtaining of any other document specifically required by a party to the real property transaction, but only to the extent that the failure to obtain such other document affects the status of the title to an interest in land or the validity, enforceability, and priority of the lien of a mortgage on an interest in land; or

(2) fraud, dishonesty, or negligence of the escrow agent in handling funds or documents in connection with closings to the extent that the fraud, dishonesty, or negligence relates to the status of the title to the interest in land or to the validity, enforceability, and priority of the lien of a mortgage on an interest in land or, in the case of a seller, to the extent that the fraud, dishonesty, or negligence relates to funds paid to or on behalf of, or which should have been paid to or on behalf of, the seller.

(c) The indemnification under a closing protection letter may include limitations on the liability of the title insurance company for any of the following:

(1) Failure of the escrow agent to comply with closing instructions that require title insurance protection inconsistent with that set forth in the title insurance commitment for the real property transaction. Instructions that require the removal of specific exceptions to title or compliance with the requirements contained in the title insurance commitment shall not be deemed to be inconsistent.

(2) Loss or impairment of funds in the course of collection or while on deposit with a bank due to bank failure, insolvency, or suspension, except such as shall result from failure of the escrow agent closer to comply with written closing instructions to deposit the funds in a bank that is designated by name by a party to the real property transaction.

(3) Mechanics' and materialmen's liens in connection with sale, purchase, lease, or construction loan transactions, except to the extent that protection against such liens is afforded by a title insurance commitment or policy issued by the escrow agent.

(4) Failure of the escrow agent to comply with written closing instructions to the extent that such instructions require a determination by the escrow agent of the

validity, enforceability, or effectiveness of any document described in subitem (B) of item (1) of subsection (b) of this Section.

(5) Fraud, dishonesty, or negligence of an employee, agent, attorney, or broker, who is not also the escrow agent or an independent contract closer of the escrow agent, of the indemnified party to the real property transaction.

(6) The settlement or release of any claim by the indemnified party to the real property transaction without the written consent of the title insurance company.

(7) Any matters created, suffered, assumed, or agreed to by, or known to, the indemnified party to the real property transaction without the written consent of the title insurance company.

The closing protection letter may also include reasonable additional provisions concerning the dollar amount of protection, provided such limit is not less than the amount deposited with the escrow agent, arbitration, subrogation, claim notices, and other conditions and limitations that do not materially impair the protection required by this Section 16.1.

(d) This Section shall not apply to the authority of a title insurance company and title insurance agent to act as an escrow agent under subsection (g) of Section 17 of this Act.

(e) The Secretary shall adopt and amend such rules as may be required for the proper administration and enforcement of

Public Act 096-1454

HB5409 Enrolled

LRB096 18556 RPM 33938 b

this Section 16.1 consistent with the federal Real Estate Settlement Procedures Act and Section 24 of this Act.

Section 99. Effective date. This Act takes effect January 1, 2011.