

ALL ABOUT TITLE INSURANCE

WHAT IS TITLE INSURANCE?

Title insurance is protection against loss arising from problems connected to the title to your property.

WHY YOU NEED TITLE INSURANCE.

Before you purchased your home, it may have gone through several ownership changes, and the land on which it stands went through many more. There may be a weak link at any point in that chain that could emerge to cause trouble. That is what a title search and title insurance are for. For example, someone along the way may have forged a signature in transferring the title. Problems with the title can limit your use and enjoyment of the property, as well as bring financial loss. Title insurance covers the insured party for any claims and legal fees that arise out of such problems.

IS PURCHASING TITLE INSURANCE OBLIGATORY?

It is if you need a mortgage, because all mortgage lenders require such protection for an amount equal to the loan. It lasts until the loan is repaid. As with mortgage insurance, it protects the lender but you pay the premium, which is a single-payment made upfront.

DOES TITLE INSURANCE DO ANYTHING FOR ME?

The required insurance protects the lender up to the amount of the mortgage, but it doesn't protect your equity in the property. For that you need an owner's title policy for the full value of the home. Borrowers must buy it as an add-on to the lender policy. It is advisable to do this because the additional cost above the cost of the lender policy is relatively small.

DOESN'T THE LENDER POLICY INDIRECTLY PROTECT ME?

No, title policies are indemnity policies, they protect against loss, and a lender policy would only cover the lender's loss. Of course, the fact that the insurer issued a policy to the lender indicates that the title has been searched and nothing amiss has been found, but no search is 100% dependable. That is why an insurance policy is issued.

FOR HOW LONG IS THE PROPERTY OWNER PURCHASING TITLE INSURANCE COVERED?

The owner's protection lasts as long as the owner or any heirs have an interest in or any obligation with regard to the property. When they sell, however, the lender will require the purchaser to obtain a new policy. That protects the lender against any liens or other claims against the property that may have arisen since the date of the previous policy.

For example, if the contractor you failed to pay for remodeling your kitchen places a lien on your home, you are not protected by your title policy; the lien was placed after the date of the policy. You will

probably be required to get the lien removed before you can sell the property. But in the event the lien hasn't been removed and a search has failed to uncover it, the new lender will be protected by a new policy.

WILL TITLE INSURANCE PROTECT ME AGAINST FALSE CLAIMS THAT AROSE AFTER I PURCHASED THE PROPERTY?

The standard policy does not, which is a weakness. Many events beyond your control can reduce the value of your house after you buy it. If it is a newly-constructed house, sub-contractors claiming they had not been paid by the builder may place a lien on the house. Identity theft can result in a new mortgage you know nothing about. A neighbor could build on your land without your knowledge, thereby adversely possessing and possibly eventually taking your land. Or you may suddenly be told that you must correct a zoning violation of the previous owner.

To deal with these issues, a new policy with enhanced coverage has been developed with a small price increase. It is usually referred to as the ALTA Homeowner's Policy.

WHY DO I NEED TO PURCHASE A NEW POLICY WHEN I REFINANCE?

You don't need a new owner's policy, but the lender will require you to purchase a new lender policy. Even if you refinance with the same lender, the existing lender's policy terminates when you pay off the mortgage. Furthermore, the lender is concerned about title issues that may have arisen since you purchased the property, such as the lien mentioned in an earlier question. A new title search will uncover the lien, and you will have to pay it off as a condition for the refinance.

Subject to state law, insurers generally offer to extend the existing policies of borrowers who refinance at a discount from the standard premiums. The periods for which the discounts are available vary by state. If you have your policy we can offer a discount called a reissue rate.

ARE TITLE INSURANCE PREMIUMS FAIR TO LOW-INCOME BORROWERS?

Probably they are more than fair. Most title insurance costs arise in preventing loss rather than paying claims, and prevention costs are not much different for a small policy than for a large one. Despite this, premiums are scaled to the amount of the mortgage and the sales price of the property.