



Common Questions About Title Insurance

If you are in the midst of buying a home, you know that you have to purchase homeowners' insurance. This will cover any losses you might incur due to natural disasters, fires, or other mishaps. You have probably also heard the term 'title insurance' being thrown around as you have prepared yourself to sign the loan documents. Many people are less familiar with this type of insurance and its purpose. The following are some common questions people have about title insurance, accompanied by some helpful answers.

What is a title?

A home title is a legal document establishing evidence of ownership. Basically it is the deed to the home.

What is title insurance?

Title insurance is a protection policy that will reimburse you for losses caused from problems with the property's title.

What kind of issues does it protect against?

Before you are issued a title insurance policy, the company will run a title search. They look for any fraudulent activity connected with the title, like forged signatures or illegal transfers of the title. If this kind of problem is not detected during the search but becomes a problem after you buy the home, the insurance will cover legal fees in settling the issue.

Title insurance will also protect you if it turns out that one of the previous owners incurred liens on the property, like unpaid property taxes or mechanics' liens. Again the title insurance will cover legal fees associated with resolving such disputes.

Generally, because title searches are so thorough, there are few title issue claims and lawsuits. In fact, because there are so few problems, statistics show that title insurers pay out less than 10 percent of the premiums they collect. Auto insurers, by contrast, pay out about 50 percent of the premiums they collect. Obviously title issues are rare!

Is it required?

So if title issues are so rare, why is it important to get title insurance? Is it required to have it? The answer is yes. Mortgage lenders almost universally require title searches and title insurance. They are investing a lot of money into your loan and they want to make sure the property securing the loan is free from major issues. If you were to default and foreclose on the loan, the lender would then have to dispose of the property. If a title issue was discovered at that point, the lender would have to pay out fees to cover the legal disputes, further decreasing their profit from the loan and the home sale.

Who pays for title insurance?

The good news is that you, the buyer, do not always have to pay for the title insurance. You



may be able to negotiate with the home seller to pay for your title insurance policy. While certain regions of the country seem to have customs about whether the buyer or seller pays, those customs are not set in stone and can often be worked around. Be sure to talk to the seller about taking on this cost. You could save yourself several hundred or thousands of dollars, depending on where you are buying.