

Understanding Title Insurance

The purchase of a home is one of the most expensive and important purchases you will ever make. You and your mortgage lender will want to make sure the property is indeed yours and that no one else has any lien, claim or encumbrance on your property. Title Insurance fulfills this need. *The following FAQ provides more details on an often-misunderstood line of insurance, title insurance.*



Q. What is the difference between title insurance and casualty insurance?

A. Title insurers work to identify and eliminate risk before issuing a title insurance policy. Casualty insurers assume risks. Casualty insurance companies realize that a certain number of losses will occur each year in a given category (auto, fire, etc.). The insurers collect premiums monthly or annually from the policy holders to establish reserve funds in order to pay for expected losses. Title companies work in a very different manner. Title insurance will indemnify you against loss under the terms of your policy, but title companies work in advance of issuing your policy to identify and eliminate potential risks and therefore prevent losses caused by title defects that may have been created in the past. Title insurance also differs from casualty insurance in that the greatest part of the title insurance premium dollar goes towards risk elimination. Title companies maintain "title plants" which contain information regarding property transfers and liens reaching back many years. Maintaining these title plants, along with the searching and examining of title, is where most of your premium dollar goes.

Q. Who needs title insurance?

A. Buyers and lenders in real estate transactions need title insurance. Both want to know that the property they are involved with is insured against certain title defects. Title companies provide this needed insurance coverage subject to the terms of the policy. The seller, buyer and lender all benefit from the insurance provided by title companies.

Q. What does title insurance insure?

A. Title insurance offers protection against claims resulting from various defects (as set out in the policy) which may exist in the title to a specific parcel of real property, effective on the issue date of the policy. For example, a person might claim to have a deed or lease giving them ownership or the right to possess your property. Another person could claim to hold an easement giving them a right of access across your land. Yet another person may claim that they have a lien on your property securing the repayment of a debt. That property may be an empty lot or it may hold a 50-story office tower. Title companies work with all types of real property.

Q. What types of policies are available?

A. Title companies routinely issue two types of policies: An "owner's" policy which insures you, the homebuyer for as long as you and your heirs own the home; and a "lender's" policy which insures the priority of the lender's mortgage over the claims that others may have in the property.

Q. What protection am I obtaining with my title policy?

A. A title insurance policy contains provisions for the payment of the legal fees in defense of a claim against your property which is covered under your policy. It also contains provisions for indemnification against losses which result from a covered claim. A premium is paid at the close of a transaction. There are no continuing premiums due, as there are with other types of insurance.