

Do You Really Need Title Insurance?

Without it, you could lose your most valuable asset—your home

If you have recently purchased or refinanced a home, chances are you have had to get title insurance. What exactly does title insurance cover, and who does it protect—the homeowner or the lender? Do you need title insurance on a refinance if you bought title insurance when you purchased your home? Here are answers to those important questions, as well as helpful advice on title insurance, and whether or not you need it.

Basically, title insurance protects you against problems affecting the title to your home. There are two types of title insurance—a Loan Policy, and an Owner’s Policy. A Loan Policy protects the lender for the amount of the loan, while the Owner’s Policy protects you, the homeowner, for your investment in the property—your equity. In both cases, the title *process* covers an exhaustive search of public records to make certain the title to the subject property is clear, and covers against future loss if a claim against the property is made.

While discovering an issue with your title can seem rather remote, one out of every four title searches reveals a problem with the title. Examples include tax liens, forged signatures in the chain of title, recording errors, title search errors, undisclosed easements and title claims by missing heirs and/or ex-spouses. These problems would be uncovered in a title search before you even close on your home.

Even after an exhaustive title search is performed and a title policy issued, sometimes a problem may surface that can threaten your home. If you only have a lender’s policy, where the outstanding loan is covered, your equity is not protected. A separate Owner’s Policy would protect you—for as long as you or your heirs have an interest in the property.

With the recent refinance boom that has occurred over the last several years, some homeowners have questioned whether or not they need a new title policy when they refinance. The answer is, you won’t need a new Owner’s Policy, but a lender will require a new Loan Policy because a title search must be performed covering the time since the last policy was issued. It is interesting to note that, even after a title search has been completed, a second search is done just before recording the deed to make sure nothing has affected the title since the initial search, even if it’s only been a few weeks.

Although somewhat remote, there is the chance that unforeseen problems might exist such as a mechanic’s lien from a contractor who claims he/she has not been paid, or a judgment placed on your house for unpaid taxes. The lender will understandably want to make sure the title to the property they are financing is clear.

Rates sometimes vary, and you can certainly shop around and negotiate for the best rates. With the advent of the practice of “bundling” fees into one loan and settlement package, you should be sure to ask if Owner’s title insurance is included.

In some states, the seller actually pays for Owner's coverage. Be sure to ask about an Owner's Policy at the time you obtain a Loan Policy.

Remember, title insurance protects you against the potential loss of your most valuable asset—your home.