

Understanding Title Insurance

WHAT EXACTLY IS TITLE INSURANCE?

Title insurance protects you and your lender if someone challenges your property title because of title defects unknown at the time you bought the policy.

Possible defects include:

- Errors or omissions in deeds
- Mistakes made in examining records
- Forgery
- Undisclosed heirs
- Liens for unpaid taxes
- Liens by contractors

WHAT DOES TITLE INSURANCE COVER?

Before issuing a title policy, title companies check for defects in your title by examining public records, including deeds, mortgages, wills, divorce decrees, court judgments, tax records, liens, encumbrances and maps. The title search determines who owns the property, what outstanding debts are against it and the condition of the title.

If someone claims an interest in your property, the title company will pay for any actual loss (up to the amount of coverage) and defend your title in court when:

1. A deed or other document in your chain of title is invalid;
2. A lien against your title exists because a previous owner failed to pay either a mortgage or deed of trust, judgment, a charge by a homeowner's association.
3. A lien exists for labor materials furnished by a contractor without your consent;
4. Leases, contracts or options on your land weren't recorded in the public records or disclosed to you;
5. A notary public error or someone failed to properly sign a document in your chain of title, or made an error in recording the document in the county clerk's office, or failed to deliver the deed according to the statutory requirements;
6. The title policy failed to disclose legal restrictions on how you can use your property;
7. An easement exists that isn't in public records and that you don't know about;
8. Other liens or encumbrances on your title exist but aren't listed in the policy exceptions.

IS MY POLICY STILL ACTIVE IF I REFINANCE MY HOME?

Most lenders require borrowers to buy new loan title policies when refinancing. When the new loan pays off the existing loan, the old title policy is no longer in effect. A title company issues new policies in connection with new loans. Title companies must discount the premium if refinancing occurs within seven years of the original loan date. Your owner title policy remains in full force and effect after a refinance.

WHO DOES TITLE INSURANCE PROTECT?

Most lending institutions won't loan money for a house or other property unless you provide a loan title policy. This policy protects the lender's investment by paying the mortgage if a title defect voids the owner's/buyer's title. Investors who buy the new loan often require a loan title policy. When you buy a house, title companies also issue an owner's policy, unless you reject it in writing. You don't have to buy an owner's policy. The owner's policy protect your title against the covered risk set out in policy.

