

The Truth About Title Insurance

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For all those who think that title insurance is not needed in the real estate industry, think again! Title defects are out there and pose a bigger threat than you might think; according to the American Land Title Association, over \$787,075,613 in claims were paid out by title insurance companies in 2005 alone.

All lenders require a buyer to purchase a policy on their behalf if the amount borrowed exceeds a certain amount determined by each individual institution. You have no choice in purchasing this policy, if the lender requires it, then you must purchase it to receive the loan. What many homebuyers do not understand is that although they pay for the lender's policy, it is purchased on the institutions behalf and ONLY benefits the lender. The coverage under this policy is limited to the loan amount and is reduced as the principal loan amount is paid off. This means that if you do not finance 100% of the purchase price, then the entire value of your home will not be covered under the lender's title insurance policy. Even if you have financed 100% of the purchase price you are only safe until your first payment is made because as you knock off principal, you are also knocking off coverage. Once the loan is paid off there is no more coverage under the policy (zero, zilch, nada)!

This is why it is very important for a homebuyer to purchase not only a lender's policy, but an owner's policy as well. The owner's policy protects the equity that you have invested in your home. For example, let's assume 10 years from now, that you have an outstanding balance of \$50,000 on a loan that was used to purchase a piece of property for \$150,000. If a title defect is discovered and you only purchased the lender's policy, you are only covered for the \$50,000 that is left on the loan. You lose \$100,000 worth of equity. However, if you had purchased the owner's policy when you purchased the property, \$50,000 would be covered to pay off the lender and \$100,000 would be available through the owner's policy to pay you for the equity that you put into the property.

Owner's title insurance is paid for through a one-time premium at closing that covers the purchaser for as long as they own the property. It provides a very simple solution to what can turn out to be a very big problem!