

# *Title insurance and owner's title insurance explained*

## **What is title insurance?**

When you buy a home, a document called the “title” states your right to own the property. Title insurance protects that right against anyone else who might try to claim ownership.

There are two types of title insurance to be aware of:

- Lender's title insurance (required) protects *your mortgage lender's* financial stake in the home
- Owner's title insurance (optional) protects *your* financial stake in the home

Although owner's title insurance is technically optional, real estate experts strongly recommend you buy this coverage.

Title issues can come out of nowhere at any time. And the one-time fee you pay for owner's title insurance (around \$850 on average) could protect the thousands of dollars you've paid into the home and built in equity.

If you ever lost part ownership because of title problems, the additional title insurance premium you paid could erase your financial loss.

## **Title insurance definitions**

Here are the basics of title insurance:

- **Title** — A term for your homeownership rights
- **Title insurance** — Protects your ownership rights if a third party argues against your rights to the property

- **Owner's title insurance policy** — Has you, the home buyer, listed as the policyholder and the beneficiary of any claims. The one-time title insurance premium averages \$850
- **Lender's title insurance policy (also called a 'loan policy')** — Mainly protects the mortgage lender from financial loss. The one-time cost averages \$550 and is paid by you, the home buyer
- **Title search** — The legal process documenting the ownership history of a property. Before closing on a home, home buyers need a title search to find out whether someone else has a legal claim to the property or the legal right to use part of the property
- **Title defects** — Any possible threat to your ownership rights of the property you're buying
- **Encumbrance** — A broad term for any limitation on the property you're buying. Encumbrances, which the title search should reveal, can include local zoning laws, an existing lease on part of the property, or easements or encroachments in place at the property
- **Easement** — Gives someone else the right to use part of the property you're buying. Sometimes a utility company or a neighbor may have the legal right to use part of the property for a specific purpose. Unlike a lien, an easement does not translate into ownership of the property
- **Encroachment** — If a neighbor's out-building, garage, driveway, or even a fence spills onto the property you're buying, you have an encroachment issue. Avoid encroachments if possible since they cloud property rights. Plus, your homeowners insurance could be responsible after an accident even though the property belongs to your neighbor

The title search is an important part of the home buying process. Even if a title defect doesn't stop you from buying the new home, it may persuade you to ask the seller for a lower purchase price.

Title insurance will not protect you or your lender from title defects that show up in the title search; title insurance exists to protect policyholders against unknown title problems that emerge *after* you've bought the home.

### **How title insurance works**

Title insurance is designed to protect homeowners and mortgage lenders from financial losses arising from defects in titles. If someone turns up saying they own, or partly own your home, your first call should be to your title insurer.

The insurer will typically take up your case and may decide to fight it through the courts.

If the title insurance company loses or doesn't contest the claim because it thinks the other side will win, your owner's policy should compensate you for the money lost. If the mortgage lender stands to lose money, the lender's policy will provide the coverage.

### **What title insurance covers**

There are four types of title issues that title insurance usually covers:

- **Unknown liens** — When a previous owner used the property as security on a debt that hasn't been repaid. Or, when back property taxes or child support payments remain outstanding
- **Omitted heirs** — Someone who was entitled to inherit the home (or an interest in it) never got their due. Legally, they may still own the property or part of it
- **Mistakes in the public record** — Years ago, the staff keeping records at the courthouse may have made a mistake recording a title; as a result, the new title search didn't show an old lien
- **Fraud** — A previous "seller" never bought the home, or a previous co-owner forged a signature on key documents to sell the property

Any of those might be grounds for claiming on a lender's or owner's title insurance policy.

### **How much does title insurance cost?**

The premium on title insurance is a **one-time payment** made at closing. On average, lender's title insurance costs about \$550 and owner's title insurance costs \$850. But those rates can range anywhere from \$300 to \$2,000 or more.

The actual cost of title insurance depends on the value of the property, the insurer from which you buy your coverage, and where the home is located. You'll need to get quotes to see how much title insurance will cost for you.

You do not make recurring payments for title insurance, like you do for a homeowners insurance policy or home warranty.

After the one-time payment at closing, your title insurance is valid if you own the home.

### **Why get an owner's title insurance policy?**

Shouldn't it be obvious who owns a piece of property? Couldn't you save money by skipping the owner's title insurance policy?

Not always. Ownership of real estate isn't as simple as owning personal property or even a vehicle.

If a previous owner didn't pay off a second mortgage loan, for example, that lender may still have a lien on the property. A lien means the lender can claim ownership of part of the property as repayment for the debt.

Or what if a previous owner used the home as collateral for a business loan, and never paid that loan off? The bank may claim a stake in the property.

And then there's the possibility that heirs of a previous owner still claim partial ownership but were never correctly recorded as part owners.

If these kinds of ownership problems surface, title insurance won't make them go away. But your title insurance policy could reimburse your financial loss if someone else proves he or she owns a stake of your home equity.

It conveys that your mortgage lender isn't comfortable taking the risk of financing your home without title insurance coverage. Neither should you.

And it's important to note that *you* pay the title insurance premium for both lender and owner's title insurance — even though the lender's title insurance policy protects only your mortgage company.

Even if you don't have a mortgage loan, you may want to consider obtaining owner's title insurance, especially if you're making a cash offer on a foreclosure or short sale.

Chances are you'll never need it. But if you do, it could save you thousands — both in lost equity and legal fees — and might even save your home, in extreme scenarios.

## **Title insurance FAQ**

### **What is “title” for a home?**

When you buy a home, you get title to it. You're “entitled” (literally!) to ownership and to use it as you want within the law. Chances are that your title is going to be clear of issues. Most are. But sometimes a historical claim arises. Perhaps a previous owner used the home as security for a loan that was never repaid. Or maybe the home was supposed to be part of an inheritance that got overlooked. These are the types of “title defects” that title insurance is designed to protect you against.

### **What doesn't title insurance cover?**

Title insurance only protects you against unknown title issues. To flag any potential problems, the insurer should thoroughly research your title and provide you with a report before closing. If you don't bother reading it, and it mentions an anomaly in the title (such as someone

with a potential ownership claim), you're assumed to have accepted that. And your insurer will be supremely uninterested when the other owner comes to call.

### **What is an owner's title policy?**

If you have only the lender's title insurance (the required coverage), your lender is the only one that will be compensated in a claim. Some title insurers call this a "loan policy." But if you also have owners title insurance (the optional coverage) you would also be reimbursed for money or property lost.

An owner's policy protects your "stake" in the home, including your down payment and any equity that's built up. That could be equal to tens of thousands of dollars. Again — it's unlikely a title issue will ever arise. But for many homeowners, the peace of mind offered by title insurance is worth the one-time premium.

### **Who pays for title insurance?**

The person who pays for title insurance is always ... You! That applies to lender's title insurance as well as owner's title insurance — even though lender's title insurance protects only your mortgage company. It's always the homeowner who pays, unless you're lucky enough to live in a state where sellers traditionally cover the cost on your behalf.

### **Do I need title insurance?**

If you need a mortgage, you'll have no choice but to pay for a lender's policy. So, the question is: Do you need owner's title insurance?

Statistically, you may like your odds and choose to skip it to save money. Title insurance stats show that only 3-4% of the premiums these companies collect gets paid out in claims — meaning not a lot of people are making them. Or at least, not making them successfully.

But suppose you're the rare case who does need and get protection. How big a financial hit would you take were the worst to happen to your biggest asset?

If you're financially conservative or a natural worrier (or if you buy a home without a mortgage and have no lender's cover), you might find the premium is well worth the cost, if only for peace of mind. Remember, the owner's title insurance costs \$850 on average, you only pay once, and the policy lasts as long as you own the home.

### **Does my title insurance transfer to a new owner?**

No. Title insurance policies protect you, not the property. The new owner will have to buy his or her own title insurance policies.

### **Do I have to buy title insurance again if I refinance?**

Yes, you will need to buy a new lender's title insurance policy during the refinancing process, even if you use the same lender for your new loan. However, your current owner's policy — if you bought one when you purchased the home — will stay in effect after the refinance since you still own the same home.

### **Can I choose the title insurance company?**

Yes. The Consumer Financial Protection Bureau says lenders should provide you with a list of title insurance providers in your area before you close on the home. Ask your real estate agent or loan officer if you haven't already seen a list of service providers.

And, you don't have to stick to the lender's list. You can shop around for coverage on your own. Leading title insurance companies include Fidelity National, First American, and Old Republic.

### **Do I pay for title insurance separately from other closing costs?**

No. Title insurance premiums will go into escrow after you enter a contract to buy the home. At closing, the closing agent will pay the premiums out of the escrow account.

## **Understand your other closing costs**

Title insurance is just one item in a laundry list of fees you'll pay at closing. To understand all your closing costs — and how to lower them — check out our **complete guide to closing costs**.

Or get a custom estimate for your home loan and upfront fees using the link below.