

WHAT TO KNOW

About Title Insurance

All your hard work has paid off. You just found your dream house. Maybe you even managed to get a deal on it. Or, maybe you paid twenty percent over the list price. It's still your dream house, and you'll figure out a way to come up with the extra twenty percent. You'll cut expenses, starting with that thing called title insurance. After all, the house is in the city, and it has had the same owner for the last forty years, so how could there be any problems with the title?

What is "title" and why do I need to insure it?

When you buy a piece of land, you don't get handed the piece of land -- you are given title. Title is the owner's right to possess and use the property. How a home is titled can vary. For example, title might be held as tenants in common, as joint tenants, there may be a right of survivorship, or there might be a life estate in the home. In addition, as you might imagine, there are many uses for land and rights can be given or sold for such uses. Someone other than the person you think of as owner of the property itself may own mineral, air, or utility rights on the property. A bank with a mortgage on the property owns an interest in the property, as does someone who has done work on the house and filed a lien against it. The government may also have liens against the property for unpaid taxes, and the city may have an easement giving it the right to string utility lines across the front yard.

What is title insurance?

Once you know whether there are limitations on the use of the property or liens against the title, you may wonder why you cannot just deal with those issue before you purchase the property? Why would you need insurance once you know about all the problems? Isn't it like buying fire insurance after your house has burned down? In fact, buying title insurance is a little like buying fire insurance on your burned down house.

Most people are familiar with the kinds of insurance that covers events that have not yet happened -- automobile liability insurance, medical insurance, life insurance are examples of such policies. Usually, these policies exclude events that occur before the date the policy is issued. In other words, you cannot get life insurance on someone who has already died, and you will not find an insurance company willing to give you insurance coverage for a car accident that has already occurred.

Title insurance, on the other hand, covers events relating to the title that have already happened. It does not cover anything that happens to the title after the date of issuance. If you have liens filed against the property for taxes that you didn't get around to paying, your title insurance policy is not going to help you. But, if the lien is for taxes not paid by someone who owned the house eighty years ago, then you may have coverage under your title policy.

The Owners Policy

Title insurance protects your ownership right to your home, both from fraudulent claims against your ownership and from mistakes made in earlier sales, such as misspellings of a person's name or an inaccurate description of the property. In Idaho the owner's policy is typically paid by the seller.

Before offering to issue a title insurance policy, a title company will do a title search to learn whether there are any problems or limitations with the title. This search is done in an effort to minimize the risks of offering insurance. By minimizing the risks of claims being made, a title insurance company is able to offer its insurance policies for a relatively low, one-time fee. Problems such as deeds, wills, and/or trusts that contain improper vesting and incorrect names, outstanding mortgages, judgements,

and tax liens, easements, or incorrect notary acknowledgments are generally found through the title search and usually can be cleared up before the closing on the property. When these problems are not cleared, they will often be listed as exceptions to the policy's coverage. You would then need to decide whether the property is still something you want to purchase given the known problems with the title.

Perhaps you are wondering what the point of title insurance is if the title company won't cover known problems with the title. Isn't it like buying medical insurance that won't cover you if you get ill? The answer is "not really". There can be many problems with a title that even a diligent and trained eye may not uncover during a title search.

The Lenders policy (your mortgage lender will require it)

Title insurance protects the lender (and the secondary markets to which they sell loans) from defects in the title to your home—which could include mistakes made in the local property office, forged documents, and claims from unknown parties. It ensures the validity and enforceability of the mortgage document. The amount of the policy is equal to the amount of your mortgage at its inception. The fee is typically a one-time payment rolled into closing costs and typically paid by the buyer.

Extended Coverage

You also have the option to select extended coverage policies. The owner's policy typically comes in standard form and you must elect to purchase the extended form. The extended coverage can protect you against things like mechanics liens and possibly other imperfections to title. It is important to research and discuss your need for extended coverage. Some types of properties may not be covered by title companies under extended policies.

You have the right to choose your provider

You have a right to choose what title company you want to provide your policy. Also, find out if you're eligible for any discounts. Discounts are sometimes available if the home has been bought within only a few years since the last purchase as not as much work is required to check the title. You can also ask your lender or real estate professional for advice or help with getting quotes. Make sure the title insurance company you choose has a favorable Financial Stability Rating.

Even new construction needs coverage

Even if your home is brand-new, the land isn't. There may be claims to the land or liens that were placed during construction that could negatively impact your title.