



Do You Really Need Title Insurance?

If you recently purchased or refinanced a home, chances are you had to buy title insurance. So what exactly does title insurance cover and who does it protect?

In short, title insurance protects against problems affecting the title to your home. You may think having a serious problem with your title is rather remote, but, in fact, title companies find problems in 25% of their title searches. Common problems are liens against the property from unpaid sub-contractors, unpaid property or income taxes or judgment holders. Other issues that can cloud title that are not so easy to detect include forged signatures in the chain of title, recording errors, undisclosed easements and title claims by missing heirs or ex-spouses.

There are two types of title insurance—an owner's policy and a lender's policy. When you obtain a new loan, the lender will require you to purchase a lender's policy. A lender's policy protects the lender's interest in the property should a problem arise. It does not cover the owner's equity in the property, and will not pay the homeowner's legal expenses if there is a problem. Only an owner's title insurance policy will protect the homeowner. Owner's title insurance is optional, but it protects the homeowner by paying claims and legal fees should a problem arise. Owner's title insurance is purchased for a one-time fee at the original purchase and provides coverage for as long as you own an interest in the property or provide financing for a subsequent buyer. It also covers any liabilities you have under the title warranties you make when you sell the property.

Now suppose you purchased title insurance when you bought your house a year ago and you now want to refinance your mortgage. Do you need to pay for title insurance again when there were no problems with your title? As mentioned previously, when you obtain a new loan—and a refinance of an existing loan is a new loan—the lender will require lender's title insurance. Even if you recently purchased your home there are some problems that could arise with the title. For example, you might have incurred a mechanic's lien from a contractor who claims he has not been paid. Or, you could have had a judgment placed on your house for unpaid taxes. The lender wants to make sure the title to the property they are financing is clear. If it has been less than seven years since you obtained the previous lender's policy, you qualify for a refinance rate—basically, a discount—on your new lender's title insurance.

As part of the coverage of a title policy, the insurance company will pay all legal fees to protect the rights of the insured—the buyer or the lender—in the property. A title policy is your protection against loss of your rights to the property. When you consider that your home is probably your most valuable asset, title insurance makes financial sense.

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