



8 Common *Misconceptions* About Title Insurance



Buying a new home is one of life's most gratifying experiences. Making sure your right to own the property is protected can be just as rewarding. During the process of purchasing your dream home, you'll hear two words you've probably never given much thought – title insurance.

As with the rest of the home buying process, title insurance can be difficult to comprehend. To complicate matters, the topic is often surrounded by misconceptions that keep home buyers from recognizing its importance. To help you get a better understanding of what title insurance is and how it protects your property rights, let's analyze eight common misconceptions:

1. Title insurance offers only minimal protection.

When you purchase a home, you receive "title" to the property. Title is your legal right to own it. Early in the home buying process, a title search is conducted to review the history of the property and uncover any issues that could limit your right to ownership. Even after the most meticulous search of public records, there can be hidden title defects, such as tax liens, forged signatures, claims by ex-spouses and recording errors. These title defects can remain undiscovered for months or even years after you purchase the home.

2. There is only one type of title insurance.

There are two types of title insurance policies: an owner's policy and a loan policy. An owner's policy protects you, the property owner, against loss or damage in the event there is a covered title defect in your right of ownership to the property. If you're obtaining a mortgage loan to purchase your home, a mortgage lender will likely require that you purchase a loan policy, also known as a lender's policy. This type of policy protects the lender's interest in the property until the mortgage loan is paid in full. The loan policy provides no coverage to the homeowner.

You can opt for more enhanced coverage within your owner's policy. Standard coverage protects you against financial loss and related legal expenses for common title defects that occurred prior to the date of the title insurance policy. Enhanced coverage includes all the standard coverages, plus even more for maximum protection, some of which protect against matters that may transpire after the date of the policy.

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3. Title insurance requires a monthly or annual premium.

Unlike most insurance policies, there is no monthly or annual premium. Title insurance is a one-time cost you pay at closing when you purchase or refinance real property.

4. Title insurance is expensive.

The one-time premium for an owner's title policy is based on the purchase price of your home and accounts for only a small percentage of your closing costs. Coverage is provided for as long as you and your heirs own the property. When you add up the benefits compared to the costs, an owner's policy of title insurance is quite reasonable.

5. Paying all cash eliminates the need for title insurance.

An all-cash purchase eliminates the requirement of a mortgage loan and therefore eliminates the need for lender's title insurance. However, an all-cash transaction does not eliminate the risk posed by unknown title defects. An owner's policy protects you against possible loss or damage from a covered title defect.

6. Homeowner's insurance and title insurance offer the same protection.

Title insurance protects a buyer's right to ownership and a lender's investment. On the other hand, homeowner's insurance is a policy that protects you against potential losses or damage you can experience to the structure of your home or its contents during an insurable incident.

7. Home buyers do not get to choose the title company.

Under the terms of the Real Estate Settlement Procedures Act (RESPA), the buyer generally has the right to choose the title company when the property is purchased with the assistance of a federally related mortgage loan. The property seller may not require the buyer to purchase title insurance from any specific title company, unless it has been instructed that the seller will pay for both the owner's and loan policies associated with the real estate transaction.

8. I'll never need to use title insurance.

According to the American Land Title Association, title insurance policyholders have filed over 730,600 claims to date.* In 2018, the title industry spent over \$615 million* defending the property rights of its policyholders and compensating their losses due to covered title defects.

With so many misconceptions about title insurance, finding a team of professionals that you can trust is imperative. To learn more about title insurance and how it can protect your property rights, contact me.

*Based on combined Form 9 Annual Statements for all insurers within each family, as compiled by the American Land Title Association (ALTA) in the 2018 Title Insurance Industry Data Book.

