

## **Title Insurance FAQ**

Whether you're buying a home, land, commercial property or refinancing, there is a lot of information to be aware of when it comes to title and escrow. Here are some frequently asked questions that might help you out.

**What is Title Insurance?** Title Insurance protects the insured from losses as the result of claims on one's ownership of land. If the title is insurable, the company guarantees the owner or lender against loss due to any defect in title and will compensate for any valid claims as well as pay for legal fees to defend the title. This is probably one of the most comforting features of Title Insurance.

**What can make a Title defective?** When you buy a home, it is necessary to know information about other's rights to the property. But even the most diligent search of public records could fail to disclose a number of title defects. Things such as:

- fraud—a will or deed could have been forged
- incorrect legal descriptions
- error in recording, indexing or copying
- missing or undisclosed heirs
- mental incompetence of previous seller
- wills not properly probated
- false affidavits

**What does Title Insurance cost?** Fees vary, but the cost is directly related to the value of the property. The higher the value, the more coverage is needed. The premium is a one time only cost that doesn't have to be renewed like other insurance.

**Are there different types of Title insurance policies?** Yes. Most commonly, the two different types of title policies issued are mortgage policies and owner's policies. The mortgage policy protects the lender's interest in the borrower's loan. The owner's policy protects the buyer's investment in the property.

**How long am I protected?** Title Insurance protects the property owner and/or lender for the duration of ownership or interest in the property.

**What is a Title search?** The most important reason to conduct a title search is to eliminate risk to you and your lender of future title claims and loss against the home or property you are buying. If the title search uncovers problems, you can deal with it before you close on the home or property. The title insurer and the seller may obtain payoff releases, court orders, paid assessment letters or waivers to resolve most problems. But even the most careful preventive work cannot always locate hidden issues.

**What kinds of problems can a Title search reveal?** A title search can reveal any party that might have an interest in the property, as well as a number of title defects, liens or other restrictions. For example, things like outstanding taxes, unsatisfied mortgages, and judgments against any recent owner as well as restrictions on the use of the land may require an extensive search.

**I'm refinancing, why do I need Title insurance?** When you refinance you are obtaining a new loan, even if you stay with your original lender. Your lender will require lender's title insurance to protect their

investment in the property. You will not need to purchase a new owner's title policy; the one you bought at closing is good for as long as you and your heirs have an interest in the property.

Even if you recently purchased or refinanced your home, there are some problems that could arise with the title. For instance, you might have incurred a mechanics lien from a contractor who claims he/she has not been paid. Or you might have a judgment placed on your house due to unpaid taxes, homeowner dues, or child support for instance. The lender needs reassurance that the title to the property they are financing is clear.

If it has been no more than 10 years since you bought your house or refinanced, ask for a reissue or discount rate. They are not available in every state, and you might have to meet some criteria to be eligible, so be sure to ask.

**I'm buying a newly built home, do I need Title insurance?** Construction of a new home raises special title problems for the lender and owner. You may think you are the first owner when constructing a home on a purchased lot. However, there were most likely many prior owners of the unimproved land. A title search will uncover any existing liens and a survey will determine the boundaries of the property being purchased. In addition, builders routinely fail to pay subcontractors and suppliers. This could result in the subcontractor or supplier placing a lien on your property. Again, lenders want to be sure the property has clear title, and they are insuring the correct property. Purchasing owner's title insurance will protect you against these potential problems and pay for any legal fees involved in defending a claim.

## **Escrow and Closing FAQ**

**Why do I need escrow?** Whether you are the buyer or the seller, you want assurance that no funds or property will change hands until all of your instructions have been followed. With the increasing complexity of business, law and tax structures, it takes a trained professional to supervise the transaction.

**Who chooses an escrow closing company and when?** The escrow company is normally chosen by the Buyer or Seller, but is often directed by either agent involved in the transaction, as they may already have a working relationship with an escrow company. Be aware that it is ultimately your choice in selecting your escrow company, based on your needs and wants.

**What is the fee for the escrow service?** The escrow fee is normally based on the size and complexity of the transaction. Since there are so many types of escrows and every transaction is different, there are no set fees. Usually the escrow fee is divided in accordance with the agreement of the parties.

**What are the closing costs?** Closing costs differ depending on the type of transaction involved. Escrow fees are based on the value of the escrow; for example sales price, refinance loan amount, etc., but may vary based on the complexity or additional services required. Other fees that may be incurred during the escrow are new loan financing charges, title fees, commissions, payoff to existing lender and notary services. The escrow holder has no control over the fees that are charged by outside parties. It is your right to request a closing statement to review prior to the close of escrow.

**The closing is complete...now what?** Upon closing, review the closing statement to determine that the costs were allocated in accordance with your instructions. It normally takes a period of time after closing

before the hazard and title insurance policies can be delivered to you. Any recorded documents to which you are entitled will be mailed to you after the escrow has closed. Frequently these documents will come to you directly from the office of the recorder or the Secretary of State in the case of personal property filing.