

This Week in Real Estate: Title Insurance

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This Week in Real Estate (TWIRE) has explored different series in previous editions. *TWIRE* will now focus on a new series of discussions on a topic that is very important in the world of real estate: title insurance. Over the next several week's *TWIRE* will discuss what it is, the different types and provisions included in title insurance policies.

What is Title Insurance?

Title insurance is a form of indemnity insurance that protects lenders and real estate owners from financial loss sustained from defects in the title to a property. When a property is financed, bought or sold, a record of that transaction is generally filed in public archives. Similarly, records of other events that may affect the ownership of a property, like liens or levies, are also archived.

When you buy title insurance for your property, a title company searches these records to find and remedy, if possible, several types of ownership issues. First, the title company searches public records to determine the property's ownership status. After this search, the underwriter will determine the insurability of the title.

Even the most skilled title professionals may not find all problems associated with a property. Some risks, such as title issues due to filing errors, forgeries or undisclosed heirs are difficult to identify. After the title company finishes its search, it provides a title insurance policy that will help protect the purchaser, borrower and/or lender from a variety of issues that might be uncovered later.

Types of Title Insurance Policies

There are two types of title insurance policies: a lender's policy and an owner's policy. Both types of policies are typically offered as a bundle together.

Lender's Policy

A lender's policy is required in just about every purchase and refinance transaction, and the borrower typically pays for it. This insurance typically insures that the lender is in the lien position it has contracted to be. Should there be a potential title issue, this policy protects only the mortgage lender in the amount of the loan.

Owner's Policy

On the other hand, an owner's policy protects the buyer. Although it's not required by law for borrowers to purchase an owner's policy, it is highly recommended to make sure that you, as the title holder, are protected from any potential legal issues that may come up.

Next week, we will begin to discuss the different parts of each insurance policy.