

# real estate report



YOUR GUIDE TO BUYING REAL ESTATE

## Title Insurance: Who Needs it?

During the real estate transaction (especially if you're a first-time buyer), you're hit with so many foreign terms, fees and requirements your head spins. One of those strange and unfamiliar costs is title insurance. In most cases, borrowers have no option -- either you get title insurance (among other requirements) or you don't get a loan.

The lender says you need it, you want the loan to go through, so you buy title insurance. Great. So what is title insurance?

When you buy a home you want to make sure that the people selling it actually have full and legal title. The party who conducts closing will check this out by going down to the local property records office to research the history of ownership.

But -- and here's the tricky part -- those records down at the property office may be official, but they may also be wrong. It's also possible that the person who does the title search can make a mistake and also that important information may simply not be recorded.

For instance, maybe a bill against the property was not recorded or some taxes were not paid. Or, suppose that 40 years ago the property you want to purchase was owned by Smith. Let's also imagine that Smith was a bigamist with an extra spouse. Will this matter show up on the local property records? Not likely. Does the additional Smith spouse have an ownership

claim against the property? That may only be clear after a lot of legal wrangling -- and if you lose, you could lose the house.

There may be other odd and bizarre claims as well. Was an owner an alcoholic? Insane? A drug user? Is there a contractor with a claim against the property? Such issues can "cloud" titles and neither lenders nor owners want clouds.

One form of title insurance, "lenders" coverage, is designed to protect (who else?) your lender in case of title problems. "Lenders" coverage is required and generally provides protection up to the original mortgage amount -- if you buy a home for \$300,000 and get a \$250,000 mortgage, then \$250,000 is as much coverage as you can get with a lender's policy. If there's a claim, the title insurer will fight on your behalf and if there's a claim the policy will pay off the loan if necessary. This is good news for you because you won't owe the lender a dime if you lose in court.

But there are also some options. For instance, you can also get "owners" coverage. This will protect your equity -- that \$50,000 in the example above not covered by the lender's policy. And you can often get an "inflation rider" with an owner's policy -- as the value of your home goes up, so does the value of your title coverage.



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