



Why You Need **Title Insurance**

Most types of insurance focus on possible future events and charge an annual premium. Flood, home and auto insurance are a few examples. Title insurance, by contrast, protects against hidden defects in the title and, unlike other forms of insurance, is paid only once.

Why title insurance?

Title insurance was first issued in 1871 to help make conveying, or legally transferring, property from one owner to another quicker and more efficient. Because of title insurance, real estate is more marketable and thus more valuable. Over the years, title insurance has proven effective in protecting buyers and lenders against defects in a property's title, and today its use has spread around the world.

How does the process of getting a title policy begin?

Insuring a home's title begins with a search of the public land records associated with the property. The title company examines all documents in the public records – deeds, wills and trusts, for example

– to determine the status of the title. Should title problems appear during the search process, the title company will correct them whenever possible to avoid future claims. According to surveys done by the American Land Title Association® (ALTA®), title problems consistently arise in one out of three real estate transactions (36%). That's all the more reason to have a title insurance policy.

What is the cost of not having a title policy?

Not having a title policy puts sellers at risk of having to pay future claims against the title in the case of hidden or missed issues, explained in the next section. Without a title policy, the seller has no legal protection against these claims. The most common actions taken to cure title defects include:

- ▶ releases or payoffs for liens
- ▶ releases or payoffs for deeds or mortgages needing typographical corrections (e.g., names, addresses, legal descriptions)
- ▶ clearing of estate-related issues
- ▶ clearing of physical property issues.

(Continued on next page)





Why You Need Title Insurance *continued*

What if a problem is hidden or missed?

Despite the search-and-examination process, a title problem may still be hidden or missed. Examples of common problems include:

- ▶ forged signatures on a deed
- ▶ unknown heirs who step forward to claim ownership of the property
- ▶ expired or forged power of attorney used during a prior property transfer
- ▶ incorrect public records.

Should these or other cases arise, a title insurance policy will offer indemnity protection. The title insurer will defend the title and either perfect it or pay valid claims protected by the policy.

What types of title policies are available?

There are two types of title insurance policies: a lender's policy and an owner's policy. A lender's policy ensures that, should the mortgage not be valid or the lien priority incorrect – in other words, should the mortgage fail to be enforceable – the lender will be indemnified against loss, subject to the terms of the policy.

Lenders require the homeowner to purchase a lender's title policy to protect their financial investment in the property. They also need a loan policy when packaging and selling their loans in the secondary mortgage market. .

An owner's title policy is separate from the lender's policy and serves to protect homeowners from defects and liens in the chain of title up to the date and time the deed is recorded in the public records. Owner's title insurance lasts as long as the policyholder or his or her heirs have an interest in the property. The policy may be valid even after the homeowner has sold the property. All fees and processes are subject to local real estate practices.

For more information, visit stewart.com