

# WHY IS TITLE INSURANCE IMPORTANT?

When any real estate is purchased, it's prudent to obtain homeowners coverage to cover loss from fire, storm damage or theft. Some purchasers of residential property will purchase mortgage life insurance to pay the debt in full in the event of the mortgager's death. Neither of these policies cover one of the most important aspects of any real estate purchase – the rights of clear and equitable title and ownership of the property. An owner's policy is the only way to ensure complete title protection for new owners and their investment. A property's title relates to all your legal rights to own, use and dispose of real estate, both land and improvements. Title insurance protects against the possibility of future loss in the event legal rights of ownership to a specific property is challenged. The two most common types of title insurance are: an owner's title policy and loan policy.

The loan policy protects a lender in a real estate transaction, ensuring they have first lien position and good equitable title up to the amount of the value of the policy, which is typically the loan amount. A loan policy is effective for as long as the mortgage is in force.

An owner's policy protects the buyer or new owner of the property against loss up to the full value of their policy, which is typically the amount of their investment or the sales price of the property. The owner's policy is effective for as long as the owner or their heirs own the property. An owner's policy in Texas is optional and may be refused, but this is not advisable. All prudent lenders will require a loan policy.

## COVERAGE PROVIDED BY AN OWNER'S POLICY

An owner's title policy protects the new owner's interest in the real estate purchased from claims, such as:

- Mistakes in recording of legal documents
- Undisclosed or unknown heirs
- Prior owners who did not divest themselves properly
- Fraudulent or forged deeds and wills
- Deeds by minors or persons of unsound mind
- Deeds executed under an invalid or expired power of attorney
- Liens for unpaid taxes or homeowner association dues and assessments
- Unreleased liens

For an affordable, one-time premium paid at closing, your title insurer may assume responsibility for certain covered risks associated with the ownership of your property. If the defense is unsuccessful, then the title insurer may reimburse the insured up to the face value of the policy.

## TITLE SEARCH VS. TITLE EXAMINATION

Some industry investors mistakenly believe a title search will be able to offer the protection needed for purchasing real estate. In reality, a title search is simply an abstract or a report/record of all county recordings filed against a particular property, and includes current vesting and third-party claims filed of record. Title companies will offer a "search" or "abstract certificate" at a very reasonable cost, but it's not insurance. Once title is requested, a title company will take the search documents and examine each and every one to determine:

- All prior owners properly divested themselves of title
- All prior liens were released from the property
- Any documents are filed against a particular name or names, etc.

The compilation of the resulting title commitment will explain all findings and necessary requirements to cure any title issues so that good and equitable title may be delivered via the final title policy.