

TITLE INSURANCE IS NOT JUST ANOTHER FEE

DURING THE CLOSING PROCESS, ASK ABOUT AN ENHANCED POLICY TO COVER POST-POLICY RISKS. TITLE INSURANCE IS LITTLE UNDERSTOOD BY MOST CONSUMERS. IN FACT, A RECENT SURVEY BY THE AMERICAN LAND TITLE ASSOCIATION REVEALED THAT MOST HOME BUYERS THINK OF TITLE INSURANCE AS JUST ANOTHER FEE THEY HAVE TO PAY TO BUY A HOME. THEY DON'T REALLY KNOW WHAT IT DOES OR HOW IT PROTECTS THEM.

A MAJOR REASON FOR THIS IS THAT BUYING A HOME HAS GOTTEN PRETTY COMPLICATED. THERE ARE SO MANY DETAILS TO TAKE CARE OF THAT MOST PEOPLE RELY ON THE PERSON HANDLING THE SALE TO TAKE CARE OF THEM - TYPICALLY THEIR REAL ESTATE AGENT. THEY TRUST THEIR AGENT TO KNOW THE PROCESS AND DO WHAT IS REQUIRED, INCLUDING ORDERING SERVICES LIKE THE APPRAISAL, HOME INSPECTION, AND TITLE WORK. SINCE THE BUYER ISN'T DIRECTLY INVOLVED, THEY MAY NOT BE KNOWLEDGEABLE ABOUT WHAT MANY OF THESE SERVICES ENTAIL. AS AN IMPORTANT ADVISOR TO YOUR CLIENTS, YOU CAN HELP THEM UNDERSTAND THE VALUE THAT TITLE INSURANCE PROVIDES AND GIVE THEM PEACE OF MIND THAT THEY ARE GETTING THE BEST PROTECTION AVAILABLE.

WHAT IS TITLE INSURANCE?

EVEN THOUGH WE CALL IT INSURANCE, IT'S REALLY A PROCESS THAT INCLUDES AN END PRODUCT - THE TITLE INSURANCE POLICY.

THERE ARE TWO TYPES OF TITLE INSURANCE: LENDER'S AND OWNER'S TITLE INSURANCE. MOST LENDERS REQUIRE A LOAN POLICY WHEN THEY ISSUE A LOAN TO PROTECT THEIR INTEREST IN THE PROPERTY SHOULD A PROBLEM ARISE. THE POLICY AMOUNT DECREASES EACH YEAR AND EVENTUALLY DISAPPEARS AS THE LOAN IS PAID OFF. IT DOES NOT PROTECT THE HOMEOWNER.

AN OWNER'S POLICY ASSURES THE HOMEOWNER THAT THE PROPERTY IS FREE OF ISSUES THAT COULD CLOUD THE TITLE. IT IS PURCHASED FOR A ONE-TIME FEE AT CLOSING AND IS GOOD FOR AS LONG AS THEY OR THEIR HEIRS HAVE AN INTEREST IN THE PROPERTY. THIS MAY BE EVEN AFTER THE INSURED HAS SOLD THE PROPERTY. IF THE HOMEOWNER REFINANCES, THE LENDER WILL REQUIRE A NEW LOAN POLICY.

PRIOR TO ISSUING THE INSURANCE POLICY AND BEFORE CLOSING, TITLE PROFESSIONALS SCOUR BOOKS AND NUMEROUS PAGES OF PROPERTY INFORMATION, MAPS, RECORDS, AND MORE LOOKING FOR ANY QUESTIONS OR PROBLEMS OF OWNERSHIP.

WHAT ARE SOME TYPICAL PROBLEMS THAT MIGHT CLOUD A TITLE? THERE MAY BE A LIEN ON THE PROPERTY FOR UNPAID PROPERTY TAXES BY THE PREVIOUS OWNER, OR A MECHANIC'S LIEN BY A SUBCONTRACTOR WHO PERFORMED WORK ON THE PROPERTY AND WAS NEVER PAID. OTHER EXAMPLES INCLUDE A PRIOR UNPAID MORTGAGE, DECEASED PARTIES IN TITLE, OR COVENANTS AND RESTRICTIONS ON THE USE OF THE PROPERTY.

IF A TITLE PROBLEM IS DISCOVERED, TITLE AGENTS WORK BEHIND THE SCENES TO FIX THEM, OFTEN WITHOUT CUSTOMERS KNOWING THERE WAS AN ISSUE. ACCORDING TO THE AMERICAN LAND TITLE ASSOCIATION, OVER 33 PERCENT OF ALL RESIDENTIAL PROPERTY TRANSACTIONS HAVE SOME KIND OF TITLE PROBLEM OR QUESTION FROM THE START - THAT'S ONE IN THREE PROPERTY TRANSACTIONS.

SOMETIMES THERE ARE PROBLEMS THAT GO UNDETECTED DURING THE TITLE SEARCH, SUCH AS FRAUD OR FORGERY, A MISTAKE IN THE PUBLIC RECORD, OR AN UNKNOWN HEIR CLAIMING OWNERSHIP. IF THIS OCCURS, HOMEOWNERS WOULD FILE A CLAIM WITH THE TITLE INSURANCE COMPANY.

THE TRUTH IS, CLAIMS ARE LOWER THAN OTHER LINES OF INSURANCE BECAUSE OF THE DUE DILIGENCE THAT IS PERFORMED BEFORE THE POLICY IS ISSUED. MOST OF THE PREMIUM DOLLAR GOES TO PAY FOR THE UPFRONT COSTS OF PERFORMING THE TITLE SEARCH, AND CLEARING UP TITLE ISSUES BEFORE CLOSING.

ENHANCED COVERAGE

NOW THAT WE'VE COVERED TRADITIONAL OWNER'S TITLE INSURANCE, LET'S DISCUSS WHAT AN ENHANCED POLICY COVERS, AND WHY YOU MAY WANT TO ENCOURAGE YOUR CLIENTS TO PURCHASE THIS COVERAGE.

HISTORICALLY, TITLE INSURANCE HAS COVERED MATTERS BEFORE THE DATE OF THE POLICY. AN ENHANCED POLICY PROVIDES INSURANCE AGAINST CERTAIN RISKS BOTH BEFORE AND AFTER THE POLICY DATE. ENHANCED COVERAGE ALSO COVERS THINGS LIKE POST-CLOSING FRAUD AND FORGERY, ACCESS TO THE PROPERTY, ZONING VIOLATIONS, POST-POLICY EASEMENT ISSUES, ENCROACHMENT REMOVAL, AND BUILDING PERMIT VIOLATIONS.

ANOTHER BENEFIT IS THAT MANY POLICIES AUTOMATICALLY INCREASE IN VALUE UP TO 150 PERCENT FOR THE FIRST FIVE YEARS AS A HEDGE AGAINST INFLATION. AND WHERE A LENDER IS NOT REQUIRING A SURVEY OR MORTGAGE LOAN INSPECTION, AN ENHANCED POLICY PROVIDES AUTOMATIC SURVEY COVERAGE TO THE HOMEOWNER WITHOUT THE NEED FOR A NEW SURVEY.

IN TENNESSEE, THE ADDITIONAL PREMIUM VARIES BY UNDERWRITER, BUT GENERALLY COSTS 10-20 PERCENT MORE THAN STANDARD COVERAGES; HOWEVER, IT PROVIDES A GREAT DEAL MORE COVERAGE.

IN MARKETS WHERE SELLERS PAY FOR OWNER'S TITLE INSURANCE, THE BUYER'S AGENT MAY WANT TO NEGOTIATE IN THE CONTRACT THAT THE SELLER WILL PAY FOR AN ENHANCED OWNER'S TITLE POLICY FOR THE BUYER. IF YOU ARE THE LISTING AGENT, SUGGESTING THAT THE SELLER OFFER TO PAY FOR AN ENHANCED TITLE POLICY FOR A NEW HOME BUYER CAN BE A GREAT MARKETING TOOL TO HELP INCREASE THE RESALE POTENTIAL OF THE HOME BY INSURING ADDITIONAL TITLE RISKS.