ISSUE 56

LAWYERS LINK

PROTECTING WHAT'S YOURS

Source: American Land Title Association (ALTA) | www.alta.org

The title insurance industry has been protecting the American dream of homeownership for more than 125 years. Real estate property is the nation's largest asset, and the 1990s was one of the best decades in American history for housing. The behind-the-scenes work of title companies ensures the quick and secure transfer of land, fostering lender and consumer confidence in their real estate investments.

The objective of title insurance remains the same as it has always been – helping the parties in real estate transactions to determine their rights and interests, and assuring that land transfer is expeditious and secure. Protecting the parties involved in real estate transactions is the reason the title insurance product was developed.

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Lawyers Title

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Types of title insurance

There are two types of title insurance – owner's title insurance (an Owner's Policy), which protects the buyer, and lender's title insurance (a Loan Policy), which protects the lender. In a typical residential transaction, the title policy often required by the mortgage lender will not safeguard the rights and interests of the homebuyer, therefore, a separate Owner's Policy is necessary.

An Owner's Policy is typically issued in the amount of the real estate purchase price, and remains in effect for as long as the owner, or his or her heirs, retains an interest in the property. In addition to identifying risk before a transaction is completed, the Owner's Policy will pay valid claims and all defense costs against attacks on the title.

A Loan Policy assures the lender of the validity, priority and enforceability of its lien (mortgage) – serving as protection for the lender's security interest in the property. A Loan Policy is issued in the amount of the loan, and liability decreases as the mortgage debt is reduced.

Who pays for the title insurance is a matter of local custom. In some parts of the country, the seller purchases the Owner's Policy for the buyer, in effect telling them the title is clear. In other parts of the country, both the Loan Policy and Owner's Policy are issued simultaneously, and in still others, the buyer must ask for an Owner's Policy and pay separately for it.

Costs of title insurance

Title insurance protection is significantly different from other lines of insurance. Typically, other types of insurance assume a particular risk and provide financial indemnity in the event the risk occurs. Title insurance, on the other hand, emphasizes loss prevention by eliminating risks caused by title problems arising from past events.

Approximately 25 percent of all residential real estate transactions have issues with the title – issues that are resolved by title professionals before closing. This emphasis on loss prevention results in fewer claims paid by title insurers compared to other lines of insurance. However, loss prevention and clearing title issues is a labor-intensive and costly component of a title company's operating budget. To compare, the expense ratio for title insurers averages 90 percent, while the expense ratio for property and casualty companies is less than 30 percent.

Please contact your Lawyers Title Sales Executive if you have any questions or need more information.

MONTHLY INDUSTRY TERMS

Conventional Mortgage
A mortgage securing a loan made by investors without governmental underwriting, i.e., a loan which is not FHA insured or VA guaranteed.

Personal Property
Any property which is not real property, e.g., money, savings accounts, appliances, cars, boats, etc.

Realtor®
A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.