

TITLE INSURANCE

Explanations and Answers



How Title Insurance Differs From Other Forms of Insurance

Unlike other forms of insurance, **title insurance emphasizes loss prevention for the insured.** Title professionals perform the labor-intensive work to find and address title issues that could threaten homeowners and lenders. This upfront analysis results in fewer claims and gives policyholders the peace of mind that their title risk has been effectively reduced. In contrast, insurance based on loss assumption (such as auto or property and casualty insurance) requires little upfront work because claims cannot be predicted or prevented, and premium funds are needed only in the event of an accident or other covered issue. These types of insurance also require annual coverage payments, unlike title insurance which is paid for only upon the purchase of the house or establishment of a new mortgage.

Technology's Role in the Cost of Title Insurance

Advances in technology are helping to streamline the title search process. Our underwriter, First American Title Insurance Company, continues to make investments in "title databases," where documents from the public records are organized and centralized. Yet, even with these advances, **technology cannot fully automate the title process** given the need to analyze and interpret the information, to correct title defects, and the fact that many county recorder offices still maintain only paper records. These and other functions require the skill of highly trained professionals. The development of automated title processes will continue as title insurers focus on improving the quality of service while reducing costs.

Why Title Insurance Is Necessary On A Refinance Transaction

Although an Owner's Policy of Title Insurance lasts for as long as the homebuyers own the property, a Loan Policy protects the lender's investment only for that particular loan. When refinancing, homeowners obtain a new loan and expose their new refinance lender to new risks. Title risks for refinances include other mortgages, mechanics' liens, liens from unpaid taxes, divorce and remarriage, bankruptcy, etc. The lender (even if the same lender is used) will require a new title insurance policy to protect against those risks.

Why New Homes Need Title Protection

Title insurance is necessary on a newly constructed home even though the home itself has no title history. This is because **title risks may result from actions that occurred before the new home was built.** Also, the builder or developer may have created title risks, such as liens from unpaid subcontractors, tax assessments, bankruptcy proceedings, or a delinquent loan balance on the property. Title professionals help uncover and address these issues upfront, and an Owner's Policy protects the homebuyer after they move into their new home.