WHY DO YOU NEED TITLE INSURANCE?

TITLE INSURANCE. It's a term we hear and see frequently—we see reference to it in the Sunday real estate section, in advertisements and in conversations with real estate brokers. If you've purchased a home before, you're probably familiar with the benefits and procedures of title insurance. But if this is your first home, you may wonder, "Why do I need another insurance policy? It's just one more bill to pay."

The answer is simple: The purchase of a home is most likely one of the most expensive and important purchases you will ever make. You, and your mortgage lender, want to make sure that the property is indeed yours—lock, stock and barrel—and that no individual or government entity has any right, lien, claim to your property.

Title insurance companies are in business to make sure your rights and interests to the property are clear, that transfer of title takes place efficiently and correctly and that your interests as a homebuyer are protected to the maximum degree.

Title insurance companies provide services to buyers, sellers, real estate developers, builders, mortgage lenders and others who have an interest in a real estate transfer. Title companies routinely issue two types of policies—"owner's," which cover you, the homebuyer; and "lender's," which covers the bank, savings and loan or other lending institution over the life of the loan. Both are issued at the time of purchase for a modest, one-time premium.

Before issuing a policy, however, the title company performs an extensive search of relevant public records to determine if anyone other than you has an interest in the property. The search may be performed by title company personnel using either public records or more likely, information gathered, reorganized and indexed in the company's title "plant."

With such a thorough examination of records, any title problems usually can be found and cleared up prior to your purchase of the property. Once a title policy is issued, if for some reason any claim which is covered under your title policy is ever filed against your property, the title company will pay any covered loss arising from a valid claim. That protection, which is in effect as long as you or your heirs own the property, is yours for a one-time premium paid at the time of purchase.

The fact that title companies work to eliminate risks before they develop makes the title insurance decidedly different from other types of insurance you may have purchased. Most forms of insurance assume risks by providing financial protection through a pooling of risks for losses arising from an unforeseen event, say a fire, theft or accident. The purpose of title insurance, on the other hand, is to eliminate risks and prevent losses caused by defects in title that happened in the past. Risks are examined and mitigated before property changes hands.

This risk elimination has benefits to both you, the homebuyer, and the title company: it minimizes the chances adverse claims might be raised, and by so doing reduces the number of claims that have to be defended or satisfied. This keeps costs down for the title company and your title premiums low.

Buying a home is a big step emotionally and financially. With title insurance you are assured that any valid claim against your property will be borne by the title company, and that the odds of a claim being filed are slim indeed. Isn't sleeping well at night, knowing your home is yours, reason enough for title insurance?

WHO PAYS THE PREMIUM FOR THE TITLE POLICY?

In California, settlement practices vary from locality to locality. The party that pays the title premium is a matter of local custom and practice and not set by law. Depending upon the region, the premium for a title insurance policy can be paid by the buyer or the seller or split between both parties. In Southern California, the seller customarily pays the premium for title insurance. In Northern California, the buyer customarily pays the premium for title insurance, or occasionally the premium is split between buyer and seller. In almost every county, the buyer pays the lender's policy premium. The parties are free to negotiate a different allocation of fees. Your escrow officer can advise you as to who normally pays the premium in your area.

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