



# *Buyers's Guide to Understanding Title Insurance*

## What is a Title Insurance Policy?

The policy of title insurance you receive when you purchase a home is an important document, but many buyers don't understand what kind of protections the policy provides. Simply put, a policy of title insurance protects a buyer or lender against errors, omissions, or defects in the title to the property. Unlike auto or homeowners insurance which protect you against future loss, title insurance protects you against claims or losses which have been created by past events which occurred prior to the time you own the property.

For a one-time charge at closing, the title company will complete an exhaustive search of the public record and, at close of escrow, it will issue an insurance policy which will safeguard against title problems which might challenge ownership of the property. There are two basic forms of title insurance:

- The lender's policy protects the lender's interest in the property. The amount of insurance is usually based on the loan amount.
- The owner's policy protects the buyer and is issued in the amount of the purchase price of the property.

## The Title Report

As soon as your escrow is opened, your escrow officer will contact the title company and open the title search. Within a day or two, the title company will issue its title report. This report is the result of a search of public records and the historical chain of title to detect known claims against or defects in the title to the property. Items found in this search include loans, liens or judgments which may be recorded against the property or against the seller.

The escrow officer carefully reviews the report to identify which items must be cleared from the title. You and the other parties in the escrow will be given a copy of the report. This is your opportunity to review the items which affect the title to the property you are buying. Not all items can be removed from the title. Real property taxes and Covenants, Conditions, and Restrictions (CC & R's) are said to "run with the property", which means they will affect the land for all time. As the buyer, you agree to purchase the property "subject to" the approved "exceptions" to your title insurance coverage.

## Satisfying Title Requirements

The escrow instructions and the new lender's loan documents describe what title requirements must be met before the escrow can close. It is your escrow officer's responsibility to make certain that these requirements are satisfied. As a typical example, the seller may have an existing loan encumbering the property. The escrow officer will gather information about this loan from the seller, order a payoff statement, and arrange for the payoff at closing. These actions enable the seller's loan (usually secured by a deed of trust) to be removed from the property.

## Closing

Your escrow officer will authorize recording only after all conditions, including title requirements, have been met. Shortly after your escrow closes, the title company will mail its policy to you. It's a good idea to retain this document with other important papers relating to your escrow transaction. If you don't receive the policy within 90 days of closing, ask your escrow officer to check on the status of the policy.