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Title Insurance

Title insurance provides protection against financial loss which could result from title defects or claims against your property. There are two types of policies: the owner policy, which provides protection to the homeowner and the homeowner's heirs, and the mortgagee policy which offers protection to the mortgagee (lender) and its assigns. These two policies are separate and distinct. If the lender requires title insurance (which is usually paid for by the buyer), it is the lender who is insured and not the owner. If the owner wishes title insurance, a separate policy must be purchased. The new owner can, however, reduce the cost by purchasing the two policies simultaneously. For example, when an owner policy is purchased from CATIC, there is no additional charge for a standard policy insuring the lender's interest provided it does not exceed the amount of the owner's coverage.

Title insurance offers two types of coverage. First, it will pay to defend the insured's title in a court of law, and secondly, it will pay the cost to remove a defect in title on behalf of the insured to the extent of the policy limits.

Purchasers of property are correct when they assume that their attorney's examination of the title to the premises and receipt of a warranty deed from the seller are generally sufficient to assure that they will have good title to the property.

However, title insurance provides two additional protections. First, if there is a problem, it is the title insurance company and not the new owner who will have to assume the financial burden of making a claim against the prior owner. Second, there are a number of "hidden defects" which neither the seller nor the attorney examining the title is responsible for but which could affect your title. Examples of these are lost or forged deeds, deeds executed by incompetents, incorrectly indexed deeds, or improperly probated wills. Title insurance covers all such potential problems and does so without respect to the financial resources of the attorney or the prior owner.

The title insurance policy or policies are issued at the time of closing. There is a one-time premium payable at closing by the buyer. Protection begins immediately upon the recording of the appropriate documents and works *backward* in time. This is to say that, loss resulting from any defects which occurred *prior* to your closing will be insured by the policy. Those things affecting title which occur *after* the time of your closing would generally not be covered by the standard policy, unless, of course, they were based on some defect in the title which existed prior to the time the insured lender or owner acquired an interest in the property. There are specific exceptions from the coverage of the policy, but they will be set forth on the policy as items not being covered. Normally, those items found of record during the title search will not be covered, and these will be listed as "exceptions" to coverage. For instance, most properties have one or more easements in favor of utility companies to permit the location of gas, electric, water or sewer lines, and these will be set out in the title insurance policy. However, the policy insures that there are no easements other than those listed. We will be able to explain these items to you in more detail at the closing.

The owner policy protects you, the insured, so long as you have an interest in the property. It protects your heirs' interests in the property if the property is transferred to them, and it protects the warranties you give when you transfer the property. The mortgagee (lender) policy lasts only so long as the loan is outstanding, which means that you may be required to purchase a new mortgagee policy in the event you refinance your loan at a later time.

Owners usually purchase coverage in an amount equal to the purchase price of the property. The owner policy may include a provision that automatically increases the amount of coverage by a percentage of the original amount each year for the first five years without additional cost. The amount of coverage on a mortgagee policy is the amount of the unpaid portion of the loan including interest. (Premiums are charged based upon the fair market value of the property and the total amount of the loan.) Expanded coverage policies are also available in many states at higher premiums.

In today's economic market, lenders require title insurance to secure the interest they have in the property, and to assure the marketability of their mortgages on the secondary market. As an owner of the property, you should consider obtaining an owner policy to secure the interest and marketability of *your* investment . . .your new home.

Title Insurance Compared to Other Insurance

The basic function of any type of insurance is to shift risk from one party to another for a fee or premium. An automobile owner pays a premium to an insurance company to assume the risk of loss for any accident in which the owner might become involved. Insurance companies survive by correctly calculating the balance between income and claims losses.

Before any insurance company agrees to insure a party, the company performs a process of evaluating the level of risk. This process is generally called "underwriting ".

Title insurance companies insure parties against loss resulting from matters affecting title to real property. These companies evaluate the history of the ownership of the property and charge an owner and/or a lender a premium to insure that there is nothing in that history that will result in a loss to the insured. Unlike other forms of insurance, title insurance relies on a single premium paid at the time of acquisition of the interest in the property.

Title Insurance for Owners

If you obtained a mortgage loan in order to purchase your new home, the lender probably required you to purchase a title insurance policy in its name to insure the validity of its mortgage as a lien on your property. *THAT POLICY DOES NOT PROVIDE ANY COVERAGE FOR* YOU.

Owners desiring title protection must purchase a separate policy insuring their ownership interest. The essence of the owner policy is that it insures the owner against loss by reason of the status of the record title being other than as stated in the policy, subject, of course, to certain standard exclusions and exceptions relating to the particular property. Rates for owner title insurance policies are generally higher than for loan polices because of the higher risk and because the policy insures the entire value of the property rather than just the loan amount.

The current form of owner policy in general use is the 1992 American Land Title Association (ALTA) owner title insurance policy. Recently, the title insurance industry has introduced an optional, expanded coverage policy which is available at higher rates than the standard policy. This policy is based on the 1987 ALTA Residential Title Insurance Policy with additional coverages not contained in either ALTA policy.

Owners desiring to purchase title insurance for themselves now have the option to purchase the standard or the expanded form of coverage. This brochure provides general information about the coverages afforded by each policy. It is not an alternative statement of the coverages stated in the policies.

The Standard Owner Policy

This policy provides the basic coverages for persons desiring to protect their interest in the property. It insures the following:

1. You are the true owner of the property.

2. There are no defects, liens or encumbrances other than those that are listed in the policy.

3. The title you acquired is marketable and cannot be rejected by a subsequent buyer as being impaired by some defect that existed at the time you purchased the policy.

4. You have a legal right of access to the property from a public street or private right of way.

5. The company will defend your title if it is challenged and will pay costs, attorneys' fees and expenses to defend you against any claims made against your title which fall within the coverage of the policy.

6. CATIC increased the coverage by 10% each year for the first five years without additional cost.

The coverage under both the standard and expanded coverage policy continues in force for as long as you have an interest in the property. That means that you will also be covered after you sell the property and convey the title by warranty deed to the new owners. Should the subsequent owners later make a claim against you for some problem that would be within the coverage of your policy, the company will provide the protections listed in Paragraph 5, above.

The Expanded Owner Policy

This policy provides the coverages described in Paragraphs 1 through 5 of the standard owner policy description to you *or your trustee* plus the following coverages:

1. Use of the land for a single-family dwelling is not prohibited by zoning/recorded restrictions.

2. There are no pre-existing leases, contracts or options to purchase affecting your title or easements affecting your property.

3. No work or materials were provided to your property before acquisition for which a lien can be filed.

4. You cannot lose title to your property through forfeiture or reversion because of a preexisting violation of recorded restrictions.

5. You cannot be forced to remove an existing structure on the property because of a violation of zoning or private restrictions or because no building permit was issued for the structure.

6. There are no pre-existing violations of any recorded restrictions affecting your property.

7. You have a legal right of access to the property by both foot and vehicle.

8. Protection against loss involving:

   a. Ownership claims of others based on forgery before or after acquisition of title.

   b. Claims to divest you of ownership because of a pre-existing violation of restriction.

   c. Claims of others to limit the use of your property based on a recorded restriction.

   d. Refusal to fulfill a purchase contract, lease or make a mortgage loan because of prepurchase violation of restrictions.

   e. Someone else builds on your property.

   f Inability to sell because of violations of subdivision regulations.