

TITLE INSURANCE

EXPLANATIONS & ANSWERS



HOW TITLE INSURANCE DIFFERS FROM OTHER FORMS OF INSURANCE

Unlike most other forms of insurance, title insurance emphasizes loss prevention for the insured. Title professionals perform the time-intensive work to find and address title issues that could threaten homeowners and lenders rights in the insured property. This upfront analysis and remediation results in fewer claims and gives policyholders the peace of mind that the odds of a title defect being discovered on their property has been greatly reduced. In contrast, insurance based on loss assumption (such as auto or property and casualty insurance) requires little upfront work because such claims typically cannot be accurately predicted or prevented. These types of insurance also require annual premium 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. Title insurers continue to make investments in "title databases," where documents from the public records are organized and centralized. Of course, even with these advances technology cannot fully automate the title search, examination, and clearance process as there is a need to analyze and interpret the information, to correct title defects (and also the fact that many county recorder offices still maintain only paper records). These title search, examination, and clearance 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 provides coverage for as long as the homebuyers or their heirs own the property, a Loan Policy protects the lender's collateral only for the duration of that particular loan. When refinancing, homeowners obtain a new loan and expose their new refinance lender to new risks. The lender (even if the same lender is used) will require a new lender title insurance policy to protect against those risks. Title risks for refinances include other intervening mortgages, mechanics' liens, liens from unpaid taxes, and claims related to homeowner divorce and remarriage, bankruptcy, capacity, etc.



WHY NEW HOMES NEED TITLE PROTECTION

Title insurance is necessary on a new home even though the home itself may have just been constructed. This is because title risks may stem from issues that occurred before the new home was built or during its construction. Also, the builder or developer may have created title risks, that could include liens from unpaid subcontractors or tax assessments, bankruptcy proceedings, a delinquent loan balance on the property (or the new home development). Title professionals help uncover and clear up these issues before the home purchase, and an Owner's Policy protects the homebuyer after they purchase their new home.



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