A Consumer’s Guide to Title Insurance

Developed by the Michigan Land Title Association
Why do you Need Title Insurance?

• Buying a home is the single largest investment most people will ever make.

• Title Insurance provides important coverage to protect your interest and investment in the property.

• Hidden problems can arise after closing that might challenge your ownership of the property.

• Title Insurance offers financial protection against hidden hazards by paying claims and legal fees involved in defending covered matters that affect ownership, the *Title*. 
What is Title Insurance?

• Title Insurance is an indispensable component of the real estate and mortgage finance business.

• A buyer or a mortgage lender needs to know the seller or borrower is telling the truth about what they own.

• Title insurance insures owners and lenders with a contract of indemnity – a title insurance policy, providing the buyer and/or mortgage lender the security to complete the transaction.
The title insuring process is focused on risk prevention.

- Unlike a life insurance or property and casualty insurance company, which will assume future risk in return for an annual premium, the title insurance company and its agents will work with parties to **eliminate** all known risks **prior** to completing the transaction (for a one-time premium).

- This process of risk elimination is one of the important services a title insurance company and its agents provide.

- In order to discover all potential problems, title insurance companies and agents undertake a search and examination of all the relevant public records **before the closing**. A recent survey revealed that corrective action was needed in about one out of every three real estate transactions.
The Search, Examination and Title Insuring Process

• All the identified matters are then reviewed, and those judged relevant are compiled into a report called a *title commitment* (a commitment to issue an insurance policy). The commitment will contain requirements that must be met before or at the closing in order for the title insurance policy to be issued, and serves as the basis for the closing and completing the transfer of the real estate interest.

• When the closing is completed, the entire search and examination process is extended by the title company through date of recording of the relevant documents (deed, mortgage, etc.), and policies of title insurance are issued to the buyer and mortgage lender.
Title Insurance provides security.

- A policy of title insurance eliminates many financial and legal risks inherent in even the simplest real estate transaction. After all, whether the property is someone’s home, one on which the bank has lent hundreds of thousands of dollars, or a vacant piece of investment property, buyers and lenders want the benefit of their purchase or loan. They don’t want to be tied up in court having to prove that they have a legitimate claim to what they purchased.

- Title insurance not only insures the title, it provides for the legal defense of the title, if that becomes necessary.
Title Insurance protects against fraud, forgery and more.

- The title insurance company pays for any covered loss caused by errors made in searching the public records or interpreting what it has found. It will also pay any attorney fees it incurs in defending claims covered by the policy. There are also many risks such as fraud and forgery, which are covered by a title policy, even though in many circumstances these risks may not be disclosed by even the most thorough search and examination of the title.

- Generally, title policies remain in force for as long as the insured owns the real estate interest covered in the policy (and certain aspects of the coverage continue beyond ownership). These coverages, in some instances, may be limited by provisions in the policy.
Title Insurance is Affordable

• Unlike other forms of insurance that require the payment of annual premiums, title insurance has a one-time premium that is due at the time that you purchase or refinance your property.

• Full coverage on an average automobile will cost approximately $1,200 per year or more.

• The Homeowners Insurance on a $150,000 home will cost approximately $600 per year or more.

• The one-time premium for an Owner’s Policy of title insurance for a $150,000 property will cost between $791 and $892.25 depending on the title insurance underwriter.

• Title Insurance covers you and your interest for as long as you own the property.
Who pays for Title Insurance?

- While there is no legal mandate as to who will pay for the title insurance policy, and the parties to a transaction can agree to divide costs and fees as they see fit, the custom in Michigan is for the seller to provide an owner’s policy of title insurance to the buyer. And likewise, it is customary for a borrower to provide a loan policy of title insurance to the lender.

- The modest cost of Title Insurance is a one-time premium based on the sale price of the property for an owner’s policy, and the amount of the mortgage loan for a loan policy. Premium rates are filed by each Title Insurance Underwriter with the State of Michigan Office of Financial and Insurance Regulation. As with other forms of insurance, the consumer is encouraged to shop for the best available rate by contacting local title insurance companies and their agents, or the Office of Financial and Insurance Regulation.
Title Companies also serve as settlement facilitators.

- In addition to providing title insurance policies, title insurance companies and agents often act as a neutral third party settlement facilitator for the real estate transaction, often referred to as a closing or escrow agent. The buyer, seller and lender all benefit when an impartial third party receives the money, records the documents and disburses the sale and loan proceeds according to the instructions agreed upon by all concerned. The settlement facilitator enables different parts of the transaction to effectively happen simultaneously, rather than sequentially, thereby speeding up the closing process, so the buyer moves in sooner and the sellers get their money faster.

- Typically, a closing fee or escrow fee will be charged to the seller, buyer and/or borrower for this settlement service. This is not a filed or regulated rate. The consumer is encouraged to shop for the best available closing services and fees by contacting local title insurance companies and their agents.
Public Benefits from Title Insurance

• Because of the title insurance industry, Americans close their loans faster than any other country – 30 days on average – and the speed of the transaction saves consumers tens of billions of dollars annually in additional interest costs.

• The title insurance industry spends $225 million per year to correct errors in public property records that otherwise would lead to serious impairment of property rights for millions of Americans.

• Because of the title insurance industry, people can be confident about purchasing property anywhere in the country because they are insured against fraud and defects in the public record.

• Title insurance causes lenders to be more willing to lend, because ownership by the borrower of the collateral (the real estate) is guaranteed.
Michigan Land Title Association
Title Insurance Professionals

• To find a Title Insurance Professional in your neighborhood or market - for title insurance, closing services and rate information, please go to the website of the Michigan Land Title Association (www.milta.org) and click on the Find a Member picture.