



THE LAW OFFICE OF
CHRISTOPHER J. SULLIVAN, PLLC

October 1, 2017

To: Clients and Friends
From: Christopher J. Sullivan
Subject: What is Title Insurance?

Most real property transactions in Texas involve one or more title insurance products. But what is title insurance, and why do parties to a transaction need it at all? This article discusses the basics of title insurance, including what it is, why it is used, and who determines the cost.

Title Insurance is for Buyers and Lenders

Title insurance comes in two flavors, if you will. The buyer in a property transaction can purchase title insurance to protect themselves against defects in title, including liens on the property arising prior to the current sale, or claims by other people to an interest in the property. A title insurance policy for a buyer is meant to insure the good status of title in the name of the buyer. It protects against financial loss that would otherwise come about because of claims against the property.

Lenders also purchase title insurance on property. Just as a buyer's policy will protect them against financial losses, a lender's title insurance policy is intended to compensate them in the event that they face financial loss related to title issues on the property. For example, a lender might give a mortgage on a home and later it is discovered that title to the property did not pass properly to the borrower. At that point, it's possible (even likely) that the lender is in danger of serious financial loss from a loan that is no longer properly secured by the real property. Lenders are covered under this situation up to the amount of their policy.

Who Issues Title Insurance?

Title insurance is issued by a title insurance company, often called the title insurance underwriting company to differentiate them from the title insurance agency where the transaction is actually closed. While agents typically interact only with a title insurance agency, that agency contracts with one or more title insurance underwriting companies who actually issue the policy and bear the risk. That company is the one contracting with buyers and lenders to cover them in the case of an insured event.



THE LAW OFFICE OF
CHRISTOPHER J. SULLIVAN, PLLC



Who Determines How Much Title Insurance Costs?

The cost of title insurance is set in Texas by the Texas Department of Insurance (TDI). This means that the cost does not change depending upon which title agency or title insurance underwriting company is involved. The cost of title insurance is set for buyers according to the purchase price of the property, and for lenders according to the amount of their loan. Therefore, more expensive properties and higher loans will have correspondingly higher premiums than those of smaller values. Currently, a policy on a \$100,000 home would cost a buyer \$871, or a mortgage of \$100,000 would cost a lender \$871. However, title insurance companies often offer the second policy at a discount. If a lender purchases a \$100,000 policy for \$871, the buyer can often purchase a policy for themselves for as little as \$100. In addition, policy prices can change based upon the insurer adding or deleting exceptions to the policy coverage.

What is the Role of Title Commitments?

Prior to issuing a policy, the title insurance underwriting company will issue a document known as a title commitment. Buyers and their real estate agents should review this document with the Buyers' real estate attorney because it sets out the insurer's understanding of who is currently vested with title to the property (which should match the seller's name on the contract), what liens may be showing up in the property records, and what coverages and exceptions will be on the policy. This last part is important for a complete understanding of under which circumstances the insuring company will cover a party's financial losses. For an extra one-time fee, many exceptions can be deleted from the policy, meaning the buyer or lender has increased coverage. Typically, these deletions are inexpensive.

Sincerely,

Christopher J. Sullivan

Christopher J. Sullivan
Managing Member

