

What is a lenders loan policy of title insurance? It is an insurance policy provided to the Lender by a title company based on either the dollar amount of the loan, or in the event of negative amortization, 125% increase of the stated amount. Although the borrower typically pays for the policy, it does not protect the borrower, it is only protection for the Lender.

The extent of protection depends on the type of policy. A CLTA (California Land Title Association) policy insures against losses, such as attorney fees, due to matters of fraud and forgery and assures the title as shown by the public records, meaning that which is recorded with the local County Recorder's office.

An ALTA (American Land Title Association) standard loan policy provides the same protection of a CLTA, with the additional coverage of (1) Any defect in a lien or encumbrance on the Title, (2) Unmarketable Title, (3) Lack of a right of access to the land, (4) The violation or enforcement of any law, ordinance, permit, or governmental regulation, prohibiting, or relating to use of land, (5) Street improvement assessment liens, and (6) Priority and validity of the lender's lien on the property, except to the extent that the insured encumbrance is invalid or unenforceable due to usury, the effect of any consumer credit protection, or truth in-lending laws.

An Extended ALTA loan policy provides the same provisions of an ALTA Standard, but with the addition of Western Regional Exceptions. These exceptions are: (1) Taxes or assessments which are not shown as existing liens by the records of taxing authority that levies taxes or assessments on real or by the public records; (2) Any facts, rights, interests, or claims which are not shown by the public records but which could be ascertained by an inspection of said land or by making inquiry of persons in possession thereof; (3) Easement, claims of easement or encumbrances, which are not shown by the public records; (4) Discrepancies, conflicts in boundary lines, shortage of area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by public records (5) Unpatented mining claims; reservations or exceptions in patents or in acts authorizing the issuance thereof: water rights, claims or title to water; and (6) Any lien or right to a lien, for services, labor or material theretofore or hereafter furnished, imposed by law and not shown by the public records (known as mechanics liens). Basically, it provides coverage of matters that are not in the public records.

All title companies offer endorsements to add additional coverage to a policy, or to correct or modify the exclusions of that policy. Endorsements create a greater liability for the title insurance underwriter, and therefore typically require an additional charge. Due to increased litigation and regulatory scrutiny, ALTA has been more reluctant to provide Extended ALTA loan policies to hard money lenders. Approval may only be allowed with a site inspection, a low loan-to-value ratio, or in an area with a low foreclosure rate. Regardless, it is always advised to request an Extended ALTA loan policy with every transaction.