Understanding Lender's Title Policy

A lender goes to great lengths to minimize the risk of lending you the money you need to buy a home. First, your credit is checked as an indication of your ability to pay back your loan.

Then your lender goes a step further. He or she makes sure that the quality of the title to the property you are about to buy and which you will pledge as security for the loan is satisfactory. The lender does this by obtaining a lender's policy of title insurance.

The Lender's Title Policy Doesn't Protect You.

The lender's policy protects the lender against loss due to unknown title defects. It also protects the lender's interest from certain matters which may exist but not be knowable at the time of sale.

But this policy only protects the lender's interest. It does not protect you. That's why you need an owner's policy, which can be issued at the same time as the lender's policy for a nominal one-time fee.

What Danger Of Loss Can You Face?

If a lender has title insurance protection and you don't, what possible danger of loss can you face?

As an example, let's say you've bought a home for $500,000. You've made a $200,000 down payment, and your lender holds a $300,000 mortgage lien or beneficial interest. Your lender has title insurance coverage protecting the lender's interest up to $300,000. But your $200,000 is not covered. What if some matter arises affecting past ownership of the property? The title insurance company would only defend and protect the interest of the lender. You would have to assume the financial burden of your own legal defense. If your defense is not successful, the result could be a total loss of title.

The title insurance company pays the lender's loss and is entitled to take assignment of your debt. You are out of your down payment, other equity in the property which you have accumulated, and your home. And you still owe the remaining balance on your note.

How Can There Be A Title Defect If The Title Has Been Searched And A Loan Policy Issued?

Title insurance is issued after a careful examination of copies of the public records. But even the most thorough search cannot absolutely assure that no title hazards are present, despite the knowledge and experience of professional title examiners. In addition to matters shown by public records, other title problems may exist that cannot be disclosed in a search.

WHAT TITLE INSURANCE PROTECTS AGAINST
Here are just a few of the most common hidden risks that can cause a loss of title or create an encumbrance on title:
- False impersonation of the true owner of the property
- Forged deeds, releases or wills
- Undisclosed or missing heirs
- Instruments executed under invalid or expired power of attorney
- Mistakes in recording legal documents
- Misinterpretations of wills
- Deeds of persons of unsound mind
- Deeds by minors
- Deeds by persons supposedly single, but in fact married
- Liens for unpaid estate, inheritance, income or gift taxes
- Fraud

What Protection Does Title Insurance Provide Against Defects And Hidden Risks?

Title insurance will pay for defending against lawsuits attacking your title as insured, and will either clear up title problems or pay the insured's losses. For a one-time premium, an owner's title insurance policy remains in effect as long as you, or your heirs, retain an interest in the property, or have any obligation under a warranty in any conveyance of it. Owner's residential title insurance, issued simultaneously with a lender's policy, is the best title insurance value you can get.

By combining the expertise in risk elimination at the time of issuing a policy, and protection against hidden risks as long as the policy remains in effect, your title insurer protects against title loss.

What This Means To You.

By purchasing an Owner's Title Policy you will have the peace of mind in knowing you and your loved ones are protected. If you have any questions concerning title insurance coverage, please call your local Chicago Title office. We are here to assist you.

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