

# 3 Scenarios Where It's Crucial to Possess an Owner's Title Insurance Policy

It's protection for all kinds of situations you might not think could happen to your buyer



by [Wade Vander Molen](#)

Sep 10, 2015 Inman News

Takeaways:

- **What many people don't understand — or it's sometimes explained improperly to them — is title insurance is a one-time fee that protects homeowners.**
- **Title insurance protects or indemnifies a home or property purchaser against any loss resulting from title defects, whether these defects are known or unknown at the time of the sale or refinance.**
- **For many people, the greatest asset they own is their home, so protecting the home and themselves should be their list of priorities.**

In many instances when a homebuyer comes to the closing table to sign what seems to be a mountain of paperwork legally binding them to a property, they don't always understand the extra cost for title insurance.

What many people don't understand — or it's sometimes explained improperly to them — is title insurance is a one-time fee that protects homeowners.

There are also different levels of title insurance coverage. There's the "Standard Owner's Title Policy" and the "Enhanced Owner's Title Policy."

There are major differences that I will discuss shortly. However, when the new TRID/CFPB regulations go into effect, it's important to know the protections included in an owner's title policy.

## Is it truly optional?

Scheduled to go into effect Oct. 3, 2015, the new Closing Disclosure (which replaces the HUD-1) has the many fees that the borrower pays as separate line items. There is nothing is wrong with that — as a consumer you want to know what you are paying for and why.

On the second page of the new Closing Disclosure under “Other Costs H7,” it says, “Title-Owner’s Title Policy” (Optional). In many markets, the seller pays for the buyer’s owner’s policy.

However, in the Washington, D.C., or northern Virginia region (where I live), this is not the case, and the buyer pays all of their own costs related to title insurance.

Although an owner’s title policy has always been an optional purchase for a buyer, it’s highly recommended, as it is a one-time fee that protects the homeowner and their heirs for life — even after they no longer own the property.

Title insurance protects or indemnifies a home or property purchaser against any loss resulting from title defects, whether these defects are known or unknown at the time of the sale or refinance.

**Here are some of the basic items that protect the homeowner with an extended coverage title policy:**

- Mechanic’s lien coverage
- Fraud/forgery
- Judgments
- Defective recordings
- Third-party claims (against title)
- Policy covers anyone who inherits the property from you
- Prior recorded liens not disclosed in the title policy

That sounds good, right? So why spend more money to buy an enhanced policy (homeowner’s title insurance policy)?

There are many reasons why. First, the coverage is a lot more extensive, and it covers the homeowner in most situations. For many people, the greatest asset they own is their home, so protecting the home and themselves should be their list of priorities.

Owner’s title insurance is designed to do just that. One of the great things about enhanced owner’s title insurance — available in most states — is that the coverage quickly increases to 150 percent of the value of the home purchased.

**A few examples — taken from real cases — of why you should buy a homeowner’s title insurance policy:**

**1. You receive a late notice in the mail for a loan you do not have.** This notice says you have an equity line of credit, but you don't.

Upon further investigation, you realize someone has stolen your identity and taken out a loan in your name. That loan has been recorded against your property, and now it's in default. You are about to be foreclosed by the lender.

What would you do? Well, if you had purchased the ALTA Homeowner's Policy of Title Insurance (an enhanced policy), you would file a title claim. Then the title company would deal with this because of the post-policy forgery coverage you have in the policy.

If you did not have this type of owner's title insurance, you would have to call your attorney to deal with this difficult situation on your own.

**2. You try to refinance or sell your house and find out that your seller's loan is still recorded against your property.**

Worse yet, it was a credit line and the lender who was paid at closing did not close the line of credit but, in fact, sent the seller more checks, and the seller has run that line of credit up to its maximum.

And even more bad news, the title company you closed with is no longer in business. What do you do? If had purchased owner's title insurance, you file a claim with the title underwriter. And they will work to resolve this issue at no additional cost to you.

If you don't have title insurance, you will have to hire a lawyer. And, potentially, if it cannot be resolved any other way, you could have to pay that lien off to sell your house.

**3. Someone knocks on your door and says she is the wife of the seller who sold you the house, and she wants to know why you are in her house?**

You then find out that the woman who signed your deed was, in fact, not the seller's wife but his girlfriend. You have several immediate problems: Fraud was committed in the sale of the property, and you do not have good title to your home; the person is probably due money from the sale that has already been given to the husband.

What do you do? If you have owner's title insurance, you immediately file a claim because fraud was committed, and this woman has a claim against your property.

If you do not have owner's title insurance, you will need to hire a lawyer to work through this, and you could have to pay this woman money to sign off her rights to the property.

### **Does this help you understand title insurance?**

In our industry, it's best to educate all parties on title insurance, what it does, and how it protects both sellers and purchasers. When purchasing or refinancing your largest asset (your home), it's critical to protect it as much as you can.

## In our industry, it's best to educate all parties on title insurance and what it does.

As the real-life cases above prove, it's vital to buy an owner's title insurance policy, and where available, a homeowner's title insurance policy.

If these parties had owner's title coverage in place, their terrible events would have been covered and the claims paid by the title insurance company. When the new forms and regulations come into effect this fall, the importance of purchasing an owner's title insurance policy cannot be understated.

*Wade Vander Molen is the director of sales/marketing for [Stewart Title](#) and has been in the title industry since 2005.*