



## Title Insurance Policies: Owner's vs Lender's Policies and How They Work

Do you know how title insurance can safeguard you from unexpected risks that can put your real estate ownership at stake? In a nutshell, title insurance protects against losses arising from defects in the title. Even if the risks seem minimal, title insurance shields you from potentially large losses that can remain undetected for years after you buy the property. Such threats can pose a threat to your ability to sell your property to a prospective buyer in the future. So, let's dive into this two-part series and the exciting world of title insurance and learn how it can benefit you!

### Title Insurance Policies Choices and How They Work

Title insurance policies are designed to protect the interests of the insured parties against any unforeseen issues related to the property's title. There are two main types of title insurance policies:

#### **Owner's Policy**

If you are buying real estate, you want to obtain an owner's policy. Local custom typically dictates whether buyer or seller pays the policy premium. In some regions, it is common for the buyer to pay the premium for this policy, while the custom in other regions has seller and buyer split the cost. In Franklin County, it is common that the seller pays the premium for the owner's policy. Regardless of what local custom dictates, it is important to remember that this is negotiable. Once obtained, the property owner is insured under this policy. It provides coverage for losses or damages that the owner may suffer because of any defects in the title to the property. The most common losses are back taxes or undiscovered liens. The policy will continue to insure the property owner's interest

going forward.

#### **Lender's Policy**

If you are financing the purchase of your property or refinancing your property, then your lender will likely require you to obtain a lender's policy. A lender's policy, also known as a mortgagee policy, is purchased by the buyer to protect the lender's interest in the property. The lender's policy provides coverage for losses or damages the lender may suffer because of property title defects. Since the lender has a financial interest in the property, it requires that the borrower obtain a lender's policy as a loan condition. The policy typically remains in effect until the loan is fully paid off.



### **Why Should I Get Title Insurance?**

In addition to protecting the buyer, the seller is indirectly protected too. Although the seller is not an insured party under the policy, the seller likely made certain representations and warranties about its ownership of the property in the real estate purchase contract or in the deed itself. In the end, if there is no title insurance policy and any problems emerge later on, the buyer's most

probable course of action would be to make a claim against the seller.

While you hope to avoid relying on your title policy, title insurance offers protection against potentially extensive and expensive losses by making a claim under your policy. The title insurance policy is obtained with a one-time premium that will protect you for years to come and is advisable or even required in most real estate transactions. Not only does the title insurance policy cover you going forward, but the process should reveal to a potential buyer aspects of the property that might have otherwise been unknown at the start of the transaction. A buyer should carefully use the information obtained to determine whether to proceed through closing and purchase a particular property.

If you are involved in a real estate transaction and are trying to decide whether title insurance is the right option for you, or if you have decided to obtain title insurance and have questions about all the documents involved in the process, please reach out to your Carlile Patchen & Murphy attorney or any member of our title agency to discuss your situation.