

# Title Company Facts

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## Title Companies are Insurance Companies

Title companies play multiple roles in a real estate transaction; some you see, most you do not.

Title companies are actually insurance companies, regulated by the Texas Department of Insurance. The policies they issue protect you, the buyer, against any title claims others might make against your property. These claims could be caused by fraud or forgery, contested wills, erroneous trusts, missing heirs, encroachments, easements, mechanic's liens or tax liens to name only a few.

Your title insurance premium is typically about ½-1% of the purchase price of your property and is paid at closing. It is a one-time fee and your

policy covers you as long as you own the property. It also covers you after you sell your property if a subsequent owner discovers a defect in title.

Title insurance premiums are allocated quite differently from all other types of insurance premiums. Title insurance is based on the theory of "loss prevention", which means most of the time, money and effort is spent up front, to *prevent title problems from ever occurring in the first place*.

Issuing title policies are highly labor-intensive and an expensive component of a title company's operating budget. The costs include:

♦Maintenance of current title information

♦Searching and examining title on subject properties

♦Curing or resolving any defects in title prior to issuing the policy

♦Issuing preliminary and final title commitments and issuing the policy

Why make all the upfront effort, so different from other types of insurance?

Because if a title claim is made, *it is usually very significant so it is worthwhile to avoid a claim in the first place*. However, if a claim is made, your title insurance underwriter will defend all claims on your behalf.

## Special points of interest:

- *Over 90% of your premium goes toward the upfront effort of preventing a loss in the first place*
- *If a title claim is made, the payout usually equals tens—or hundreds—of thousands of dollars, so it is worthwhile to cure title defects and avoid a claim*
- *Nationwide, claim payouts use up about 4-6% of premiums received*

## I Have Homeowners/ Hazard Insurance. Do I Need Title Insurance too?

Absolutely! Title insurance and homeowner's (or hazard) insurance are distinctly unique.

- Title insurance protects you from title claims that may be made by others.
- Hazard insurance protects your home itself and the things you keep in it (physical property).
- Comprehensive homeowner's insurance usually includes hazards but also includes liability or legal responsibility for injuries and property damage you or members of your family cause to other people.

Hazard insurance is usually geared towards physical property damage, rather than owner liability for accidents on the premises. It provides financial protection against specific

hazards or disasters, such as fire, wind, earthquakes and vandalism.

A buyer is almost always required to have basic hazard insurance at the closing of a property sale. Buyers are strongly encouraged to buy at least enough comprehensive hazard insurance to cover the cost of the mortgage. This will provide enough protection to restore the property if it burns to the ground the day after the sale is complete.

Homeowner's policies will typically cover both damage (hazards) to your property and your liability or legal responsibility for any injuries and property damage you, your family, or your pets may cause to other people.

Even though damage caused by most disasters is covered in homeowners policies, there *are* exceptions. The most significant are damage caused by floods, earthquakes and poor maintenance. You must buy two separate policies for flood and earth-

quake coverage. Maintenance-related problems are the homeowners' responsibility.

There is often a definable difference between 'homeowner's insurance' and 'hazard insurance', so it pays to ask your insurance broker about coverage before agreeing to the contract.

Premiums for homeowners/hazard insurance are paid monthly or annually. They are generally calculated on the appraised value of the property, the age of the building, construction methods and known natural hazards in the area. Insurance agencies may offer additional hazard insurance policies such as flood, earthquake and hurricane coverage, but homeowners may have to weigh the benefits against the higher premiums.