



What is Title Insurance?

A primer on title insurance and what it does.

- [▶ **How It Works**](#)
Why you should have it, where you get it.
- [▶ **Examples of Title Problems**](#)
A list of reasons to own title insurance.
- [▶ **Choosing Title Insurance**](#)
Tips for selecting the right policy.
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The Closing Process



What is Title Insurance?



5 Things You Should Know

If you're buying a home, especially for the first time, you're probably faced with a lot of terms and procedures that may be unfamiliar to you. Title insurance, escrow, points, amortization – if you're like most people, it all sounds like a foreign language.

Good thing you came to KnowYourClosing.com. This site was designed to give you a quick overview of the whole real estate transaction process, so you can understand what's involved and get an idea of what to expect. Read on, and you'll feel a lot more confident as a home buyer.

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The Closing Process

Step by Step Guide

If it hasn't already, the thrilling reality of buying a home will definitely hit you at the closing! Along with the excitement, the **deed** and the shiny new keys comes a stack of paperwork. To understand what you're signing, it's important to understand the events leading up to your closing.

- 1. It starts when a seller accepts a contract you've put in on their home.** You might put down a deposit check to prove you're serious about the offer. At that point, your **settlement agent** (often an attorney, and also sometimes referred to as closing agent, escrow officer or escrow agent), gets the ball rolling, deposits any funds you've submitted into a special **escrow** account and puts in requests for title work, or an examination of the home's ownership history.
- 2. A title company begins reviewing the title.** Each home has a series of documents recorded at the local courthouse that reflect prior owners, lenders and other parties who have or had an interest in the home you're buying. These documents are examined to identify all outstanding interests. Then, that paperwork is forwarded to your settlement agent.
- 3. Mortgage issues are addressed.** Your settlement agent works with your **lender** to verify dollar figures and other important details of the transaction. In addition, if prior **mortgages** have to be paid, or if a loan is being assumed, that's worked out by your settlement agent as well.
- 4. The property is inspected.** In most cases, a professional inspector will conduct a home **inspection**, **survey** the property and inspect for termites to ensure the integrity of the property.
- 5. The HUD-1 statement is prepared.** Your settlement agent prepares this document which shows all costs that will be paid at your closing. Check with your settlement agent to confirm the amount you need to bring to the closing.
- 6. You close on your property.** You'll need to provide a picture ID and funds in the amount that your settlement agent says you'll need to complete the **closing**. During the closing, you (and whoever else is buying the property with you) will sign a number of documents, each of which will be explained to you by the settlement agent. After your closing process is complete, the house is yours. Welcome to homeownership!



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Who's Involved In the Process

During the closing process, your **real estate agent** may arrange for a title search. He or she will also arrange for meetings between the buyers and the sellers so that the transaction details can be discussed and agreed on before closing. Sometimes real estate agents also assume responsibility for the closing (acting as settlement agents) if the lawyers, lenders or escrow officers don't do so (though an attorney's involvement is not required in all states).

Your **mortgage representative** is responsible for all the details of your loan, from application through closing.

A **title insurance professional** examines the property's ownership history — making sure the title will transfer smoothly — and issues the **title insurance** policy.

A **real estate attorney** (not required in all states) is primarily concerned with protecting your legal rights. He or she sees that the title is transferred properly, and can answer questions about your contract and the **deed**.

A **home inspector, surveyor and termite inspector** may be required to ensure the integrity of the property. The home inspector will go over every facet of the property in detail, and will most likely give you a report that outlines what problems may occur and the current condition of the home. The surveyor will check the actual dimensions of the lot, and the termite inspector will evaluate the home for damage and create a certificate, which is often needed for your mortgage.

A **homeowner's insurance agent** may inspect your home in order to process the property and casualty insurance coverage for your new property, often referred to simply as "**homeowner's insurance**." (You'll likely need this coverage to qualify for a mortgage.)

A **settlement agent (or closing agent or escrow officer)** makes sure everything is signed and that the appropriate documents are recorded, and that the funds collected for various fees and expenses are properly distributed. The settlement agent is responsible for satisfying all the title conditions, paying the seller and the previous lender, obtaining money from the buyer and new lender, obtaining recording fees and taxes for the government and filing the paperwork at the local courthouse or county recorder's office.

Typically, during the closing itself, the closing or settlement agent and you — or someone representing you — are always present. Often, the seller, or someone representing him or her, may be present too, and real estate agents for you and the seller might attend. A representative of the lender might also attend.



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Questions and Answers

What is a closing?

Closing, which is also known as “**settlement**” or “**escrow**,” is the event where the title to a property is transferred from seller to buyer. Closing is typically held in an office, such as that of an attorney, title agent or title insurance company, and involves the completion of all the necessary paperwork to finalize the agreement between buyer and seller, as well as the collection of all funds required for the transaction.

Once the necessary documents are prepared, signed and recorded at the local courthouse or county recorder’s office, the title is considered transferred to the new homeowner.

What are closing costs?

Closing costs are all costs required to close the real estate transaction. They can include (but are not limited to) surveying fees, **property taxes**, title insurance premiums, attorney fees, real estate agent commissions, **points**, **loan origination fees**, **private mortgage insurance** (PMI), and the balance of your down payment.

Prior to closing, you should review your final closing statement or **HUD-1** statement (whichever is in use in your area) to ensure that all the calculations are correct and that you have been given all the credit for deposits and other agreed upon buyer and seller credits. Also recheck all lender, title and escrow fees to make sure they are accurate.

What will happen during the closing process?

- You might do a final walk-through of the home.
- You’ll go to the closing location and show your picture ID to the settlement agent.
- You’ll present your paid **homeowner’s insurance** policy, or proof that the premium has been paid.
- Your settlement agent will review the closing statement or HUD-1 statement with you, showing all items for which you have paid.
- You’ll get inspection reports and warranties.
- You’ll sign the **mortgage**, agreeing that if you don’t make payments to the **lender** as agreed, the lender is entitled to sell your property and apply the sale price against the amount you owe.
- You’ll sign a mortgage note, which is your promise to repay the loan.
- You’ll typically be given the title to the house in the form of a **deed**, signed by the sellers.
- You will be asked to sign a number of other documents required by your lender.



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5 Things You Should Know

- The deed and mortgage will be recorded in the local courthouse or county recorder's office, sometimes called the **Registry of Deeds**.
- You'll get the keys to your house!

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What is Title Insurance?

How It Works

Before you understand title insurance, you need to understand what a **title** is. Basically, a title is a term that includes all of your legal rights to own, use and sell a piece of land. The title reflects all previous ownerships and transfers, including rights previously granted by other parties, such as **mortgages** and **easements**.

If there are **problems** with the title, the ownership of your land could be in question. Unpaid taxes, a **lien** (which is an unpaid claim) filed by someone who worked on the house, or any of countless other situations could cause a major problem. And even if you don't get the land, you might still be responsible for the mortgage! That's why it's important to have title insurance.

So what is title insurance? It's insurance against undisclosed problems with the title, and it protects you against financial loss due to title defects, liens or other matters of public record. Title insurance will defend you against a lawsuit attacking your title, or reimburse you for the actual money lost.

Before a policy is issued, a title insurance company conducts in-depth research to detect, prevent, and eliminate risks and losses caused by title problems. They do this by searching public records to develop and document the chain of title to the property and by identifying all outstanding claims.

For a one-time premium, your **owner's title insurance policy** will remain in effect for as long as you own the property.

Your mortgage lender will also require a title insurance policy. The **lender's policy** protects the lender against any title problems that may affect repayment of the loan. The owner's policy and the lender's policy are two different policies, and the one-time premiums for both are usually paid by the home buyer. In a few states, the home seller pays for the owner's policy. If you have a question about this, ask your real estate agent, mortgage lender, attorney or closing agent.



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Examples of Title Problems

This list shows why it's important to own title insurance. Although a thorough examination should identify all title problems reflected in public records, not all of these problems are apparent in public records. Any of the title problems listed here can make your title worthless (and yes, these things DO happen) – but an **owner's title policy** protects you from financial losses caused by title issues.

Hidden Title Problems

1. Someone has presented themselves as the true owner of the land, but actually is not.
2. There are forged title documents.
3. There are people who claim to have “power of attorney” who don't really have the legal authority to act for another person.
4. There are deeds delivered after the death of one of the people involved, without the pre-written consent of the deceased.
5. It is discovered that a will isn't legally valid.
6. A **deed** is to, or from, a defunct corporation.
7. There are heirs missing or not disclosed in title documentation.
8. Wills were misinterpreted.
9. Deeds were made by people of unsound mind.
10. Deeds were made by minors.
11. Deeds were made by non-citizens.
12. Erroneous reports were furnished by tax officials.
13. Estates were executed with key people absent.
14. There is an undisclosed divorce of a spouse who claims to be an heir.
15. There is a spouse who is supposedly, but not legally, divorced from someone involved in the proceedings.
16. Children were born or adopted after the date of a will that involved the property.
17. Surviving children were omitted from a will that involved the property.
18. Mistakes were made in recording legal documents.
19. Title records were falsified.
20. Creditors make claims against a property that was sold by heirs or other people named in a will.
21. Deeds were made under duress as a last option to foreclosure.
22. **Easements** (limited rights for other parties to use the land) exist that were not located by a survey.
23. A deed incorrectly identifies public property as private property.
24. There are errors in tax records.
25. There are deeds from a bigamous couple.
26. Representations on legal documents (e.g., Notary seals) are invalid or incorrect.
27. The property was condemned but there is no official record of the condemnation.



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What is Title Insurance?

Choosing a Title Insurance Company

You know you need title insurance. But where do you get it? From a **title insurance** company or title insurance agent. There are several ways to go about finding a good one:

Ask your real estate agent or mortgage lender. They work in this business every day, so they know who's doing a great job.

Talk to friends who have recently bought or sold a home. Find out who they used and if the process went smoothly.

Do your own research. Here are a few things to look for:

- Make sure the company you're choosing is a licensed title company. Otherwise, if they're unlicensed and later cease to exist, you're left unprotected.
- Contact your state insurance department or the Better Business Bureau and see if they have any information on the company. Look for stability!
- Remember: the choice is yours!



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What is Title Insurance?

Questions and Answers

What is a title?

When you purchase a home, you are really purchasing the **title** to the property – which is the right to occupy and use the property. That legal right is usually documented in the form of a **deed** recorded at the local courthouse. A title may be contested based upon past rights and claims asserted by others. These types of claims can complicate your purchase of the property, or challenge your ownership later on, and potentially cause you to lose money.

Why do you need title insurance?

A home is often the largest single investment any of us ever make. Title insurance protects against loss of value from defects that may exist in the title, or arguments made by others that such defects exist. These defects or problems include fraud, forged signatures on deeds, unknown heirs or previous owners, liens and documentation errors. If you were uninsured and your right to the title is challenged, you could lose significant money defending yourself – you could even lose your home.

How does title insurance protect you?

An **owner's policy** of title insurance protects a buyer against defects in the title of the property, either clearing up title problems or paying for your losses. For a one-time premium generally paid at closing, an owner's title insurance policy remains in effect as long as you, or your heirs, retain an interest in the property.

How does title insurance protect the lender?

A **lender's policy** of title insurance protects the lender that financed a piece of real estate against loss caused by defects in the owner's title.

Why do I need title insurance on a refinance?

Title insurance on a refinanced mortgage is usually offered at a reduced rate, and it assures your lender that you actually own the property. It insures that no one else has a preemptive position in front of the lender, and if someone does, it pays the lender's losses.

Why do I need title insurance on a brand new house?

Even if your home itself hasn't had previous owners, the land that it stands on has. Your policy insures you as the owner of a specific piece of property. It clarifies the property rights and insures that your builder hasn't used it as collateral on another loan, that there are no unidentified **easements** affecting your property and that no problems will surface to hurt you later.



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5 Things You Should Know

1. Know what “escrow” is, and who’s dealing with it for you.

You will hear the term “escrow” quite a bit during the home buying process. So, what is escrow?

Escrow (or “settlement service”) describes the process of a third party holding money or property in trust for another until certain conditions are met. An example is any amount given to your real estate agent to accompany your offer on a house. That money goes into an escrow account until you close. Likewise, the **settlement agent** holds your down payment and your lender’s loan proceeds in escrow until closing.

You also might keep money in escrow with your mortgage company for as long as you’re paying for your house, so the mortgage company can pay your **homeowners insurance** and real estate taxes for you.

So, then what does “closing” mean?



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What is Title Insurance?



5 Things You Should Know

- 1 **Know about escrow**
- 2 **Know your closing**
- 3 **Protect yourself**
- 4 **It’s your choice**
- 5 **One-time expense**

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5 Things You Should Know

2. Know what is meant by “closing.”

Closing (or “**settlement**”) is the point where all the title research is completed, the mortgage loan is approved, and all the paperwork is ready to be signed and recorded. Once all of the documents have been signed, the funds disbursed and the deed and mortgage recorded, the transaction has “closed.” In most cases, after closing, the house is all yours.

So, if the house is all mine, then why do I need title insurance?



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5 Things You Should Know

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5 Things You Should Know

3. You need title insurance to protect both yourself and your mortgage lender.

The purpose of title insurance is to protect you and your lender from defects in the title to your home. Your lender will require title insurance before your loan is funded. Without title insurance for yourself, your down payment and any equity created over time is at risk should title defects surface. And once you have title insurance, you are protected from title problems and claims against your property even if they do not surface for decades.

So, where do you get title insurance?



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5 Things You Should Know

4. You choose your title insurance company.

When it comes to title insurance, you have the right to choose whatever company you'd like. Although many people just rely on their attorney, mortgage lender or real estate agent to pick a title insurance company for them, ultimately the decision is yours.

And what is the final thing you should know?



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5 Things You Should Know

- 1 **Know about escrow**
- 2 **Know your closing**
- 3 **Protect yourself**
- 4 **It's your choice**
- 5 **One-time expense**

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5 Things You Should Know

5. Title insurance is a one-time cost.

You don't pay monthly or annual premiums to keep your title insurance – you pay it just one time, typically at closing. Then you're covered for as long as you own your home.



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5 Things You Should Know

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- 2 Know your closing
- 3 Protect yourself
- 4 It's your choice
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Glossary

Terms

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- [Closing](#)
- [Closing Agent](#)
- [Closing Costs](#)
- [Deed](#)
- [Easement](#)
- [Encumbrance](#)
- [Errors And Omissions Insurance](#)
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- [Fidelity Bonds](#)
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Broker

Broker has several meanings in different situations. Most real estate agents work under a "broker." Some agents are brokers as well, either working for themselves or under another broker. In the mortgage industry, broker usually refers to a company or individual that does not lend the money for the mortgages themselves, but uses money from larger lenders or investors. As a normal definition, a broker is anyone who acts as an agent, bringing two parties together for any type of transaction and earns a fee for doing so.

Closing

(Also called "Settlement.") The completion of a real estate transfer, where the title passes from seller to buyer, or a mortgage lien is given by the borrower to secure debt undertaken by the buyer to purchase the home.

Closing Agent

(Also called a "settlement agent," "closer" or "escrow officer.") The person responsible for facilitating a closing. The closing agent is usually either an attorney or a representative of the title company.

Closing Costs

Miscellaneous expenses involved in closing a real estate transaction over and above the price of the land. These expenses may include such items as transfer taxes, recording fees, legal fees, etc.

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