

## Why Buy Title Insurance?

A pivotal yet often overlooked component of real estate transactions is title insurance.

Title insurance is a safeguard that shields buyers and lenders from potential issues related to property ownership rights. When engaging in a real estate transaction, buyers are not just acquiring a physical property, they are purchasing the rights to the property. However, the history of property ownership can be complex and there might be hidden legal encumbrances, claims or liens that threaten a clear and uncontested title.

Consider a scenario where a buyer is excitedly finalizing the purchase of a charming cottage. Unbeknownst to them, the previous owner had a dispute with a contractor, resulting in a mechanics lien against the property. Without title insurance, the buyer might inherit this legal entanglement, facing potential legal battles or financial burdens. Title insurance acts as a shield, ensuring that the buyer's ownership is free from such hidden pitfalls.

Or, imagine a scenario where a buyer is considering a historic property. The property



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### REAL ESTATE 101

#### Buyer's Tip

Comparing homes is important when you're in the market to buy. The U.S. Department of Housing and Urban Development offers a checklist you can print out and take home shopping with you. It will make comparing different homes easier and more objective. Visit <http://bit.ly/3sx0Ye0>.

has passed through numerous hands over the decades, and the potential for a clouded title is higher due to its long history. Title insurance mitigates these risks, thoroughly investigating the property's history and providing insurance against any undiscovered issues. This proactive approach ensures that the transaction proceeds smoothly and that both parties

are protected from unforeseen legal battles.

These issues, also known as title defects, unknown claims or encumbrances, can cause huge financial losses for the buyer or even cause them to lose the home. With title insurance, the insurance company defends the title in court and pays any settlement amount needed to clear a title.

Sample title defects are a lien on a property; lost, forged or incorrectly filed deeds; property access issues; mortgage or property taxes not paid by a prior owner or an unknown or missing heir.

#### TYPES OF TITLE INSURANCE

According to the Michigan Department of Insurance and

Financial Services, there are two types of title insurance. One is an owner's policy which protects the buyer's interest in a property if a past title or ownership issue comes up after the purchase. A lender's policy protects the lender if a similar problem comes up. Anyone who is taking out a mortgage will likely have to purchase title insurance.

Coverage on an owner's policy lasts for as long as the owner (or their heir) owns the property. Coverage on a lender's policy ends when the mortgage is paid off.

#### PURCHASE TIPS

The Michigan Department of Insurance and Financial Services has several tips for purchasing title insurance:

- Select only licensed title insurance professionals.
- Compare premiums, discounts, settlement fees and services.
- Make sure the property is correctly described in all statements.
- Make sure the policy goes into effect the day you become the legal owner of the property.
- Do not pay the premium in cash or bring cash to a closing.
- Ask about whether you are insured for the gap between closing and when the documents are recorded at the Register of Deeds.



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### HOMEWISE GLOSSARY

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**Appreciation:** an increase in the value of a home due to changing market conditions and/or home improvements. **SOURCE:** FTC.gov

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