

# The Cost of Title Insurance

## Overview

If you've purchased a health or auto insurance policy, chances are you have an idea of how traditional insurance coverage works: you pay your premium and the insurance company takes on the financial liability of your auto or health risks. Obviously your rates will be adjusted according to how "risky" you are as a customer.

These types of insurance assess the risk of future loss, like car accidents, health problems, and other mishaps. Title insurance, on the other hand, helps *eliminate* risk – the risk being the loss or compromise of various homeownership rights due to existing issues with the property's title. The policy then offers financial indemnity against any of these defects that may be uncovered.

## Minimizing Risk

In order to properly eliminate risk, the process of issuing a title insurance policy includes a thorough search of public records and court documents to assess and remove any "clouds," or issues on the property's title.

## Claims

Because of the statistically small percentage of title insurance claims filed each year, it may be difficult for homebuyers to gauge the value of their purchase. However, the low number of claims actually illustrates the effectiveness of title insurance providers in locating and minimizing risks. In fact, a large piece of the premium paid for a policy goes to fund the legwork required to thoroughly research the property's title. According to the American Land Title Association, the typical expense ratio for a title insurance company is 90 percent, compared with 30 percent for a property and casualty insurance company.

## Fees

Because it is a highly regulated industry, title insurance policy types and costs will vary from state to state. You can check with your state's Department of Insurance for more information on pricing



## Title Alliance Professionals

7111 W Bell Road, Suite 102  
Glendale AZ, 85308  
O: 623-500-5031 | F: 866-262-4437  
tap@titleallianceprofessionals.com



# The Cost of Title Insurance (cont'd)

regulations. In general, each policy price is based on the purchase amount of the home (for an owner's policy) or the total amount of the loan (for a loan policy).

## Length of Coverage

Also unlike other types of insurance, the purchase of an owner's title insurance policy is a one-time event; there are no future premiums to pay as long as you or your heirs hold an interest in the property. That means that this fee, generally paid when you purchase the property, will protect you and your family *indefinitely* for so long as you hold an interest in the property.

That said, if you refinance your home, your lender will likely require you to purchase a new loan policy, as this type of insurance protects the lending institution only for the life of the loan. Your owner's policy, however, will remain effective.

## Choice

While real estate agents often influence the choice of underwriter, as a consumer you have the right to determine your own provider. It can pay to do some research to determine which company would best suit your needs.

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