

## Understanding title insurance to reduce your closing costs

**House** Would you like to save hundreds or even thousands of dollars at

**Lawyer** your next real estate settlement? Knowing the right questions and having a basic understanding of title insurance can go a long way toward reducing your closing costs.

HARVEY  
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Here's what you should ask:

● **What is title insurance?** Title insurance protects homeowners from unforeseen or unknown events or circumstances that adversely affect their title or their beneficial use and enjoyment of their property.

The standard policy covers claims that arise from events that existed at the time you bought your home. These events can include forged documents and

documents signed by persons posing as another or who lack the mental competency, capacity or legal authority to sign. These standard policies also cover you if claims are made by persons who should have joined in a deed but did not, such as co-owners, heirs, spouses,

corporate officers or business partners. An enhanced policy may be bought at the time you settle on your purchase. This policy is referred to as a "homeowner's" title policy. It protects you from additional title defects that were not readily seen by reviewing the recorded

documents, such as claims for adverse possession or prescriptive easements; subsequent encroachments by neighbors; incorrect surveys; and silent liens, such as mechanics' or estate tax liens. One particularly valuable feature provided in these enhanced policies is that they cover post-policy events. Enhanced policies also contain inflation protection.

Before a title insurance company will issue any title policy, it conducts an extensive title search of the property. In the Washington area, a full title search typically examines the title going back 60 years. In Maryland and the District, title insurance rates are filed by the insurance underwriters with the insurance commission, and all agents of that underwriter are required to charge only the filed rates.

● **How can I save money by seeking a "reissue" or "substitute rate?"**

Ask your settlement attorney whether you are eligible for a "reissue rate." You will need to prove that the home's title has been insured within the previous 10 years. Ask your sellers how long ago they bought the home. If it's 10 years or less, ask whether they purchased owner's title insurance when they bought. If so, ask them for a copy of their owner's policy and deliver it to your settlement attorney. Another way to determine whether the home is insured is to look at Section 1100

"Title Charges" on your seller's original HUD-1 settlement statement. It will state whether they bought owner's coverage and, if so, how much. If eligible, you can receive as much as a 40 percent discount off your new title insurance premium.

These discounts apply to both owner's and lender's policies. The actual discount amount varies depending on your seller's original purchase price and your current purchase price.

When refinancing, a "substitution rate" discount is available when a borrower can produce a lender's title policy issued within the previous 10 years. In other words, when a title insurance company is simply insuring a new mortgage covering the same borrower for the same property, it is willing to offer up to a 40 percent discount. The actual discount amount varies depending upon the prior policy's coverage amount and the new policy's coverage amount.

● **What is an owner's title insurance policy?**

An owner's title policy is an insurance policy written for the owner's benefit. You can buy an owner's policy only at your original settlement and only in the full purchase price. The important thing to remember is that you pay only once, and the coverage continues in effect for as long as you have an interest in your property. If you transfer your property

into a revocable living trust for estate planning purposes, your coverage continues. When you die, the coverage automatically continues for your heirs' benefit.

● **What is a lender's title insurance policy?**

The lender's title policy covers only the lender and only up to the then-outstanding loan amount, which is usually less than the full purchase price. In the event that an adverse claim arises, the lender would be able to recover its losses from the title company. Although the lender's policy protects only the lender, you, the buyer, pay the premium at settlement.

At your next home purchase, ask when the sellers bought, and if it was less than 10 years ago, ask them for their owner's title policy or HUD-1 settlement statement. At your next refinancing, produce your owner's title policy and ask for a substitution rate discount. These simple questions can save you hundreds or thousands of dollars

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