



SHINE BRIGHT

WHY HOMEBUYERS NEED TO PURCHASE BOTH AN OWNER'S POLICY AND A LOAN POLICY

In a home purchase, there are two types of title insurance policies that can be purchased:

- An Owner's Policy
- A Loan Policy

Since the "Know before You Owe" (aka "TRID") rule has gone into effect, the Owner's Title Policy is now required to be listed as optional on the Loan Estimate and Closing Disclosure. The homebuyer typically pays for both policies, but in some areas it is customary for the seller to pay. Each policy protects two distinct interests in a transaction.

The Owner's Policy

This is critical for homebuyers because it protects them if a title issue arises during or after a home purchase. This type of coverage is issued in the amount equal to the home's purchase price, and borrowers pay a one-time fee at closing. An Owner's Policy protects borrowers for as long as they have an interest in the property.

An Owner's Policy makes the insurance company responsible – subject to the terms of the policy – both legally and financially up to the policy limit – for any covered claims against the homebuyer as long as he or she purchased the Owner's Policy at closing.

The Loan Policy

A Loan Policy protects a lender's interests and is based on the dollar amount someone is borrowing from the bank – not on the full value of the property. The policy amount gradually decreases as the loan is paid down and is dissolved completely once the loan is paid off.

What's the Difference?

The key distinction between the Loan Policy and the Owner's Policy is the Loan Policy is coverage for the lender. It is designed to protect the outstanding amount of the lender's loan even though homebuyers are typically responsible for paying for the Loan Policy. An Owner's policy, on the other hand, is designed to protect the homebuyer's interest in the property.

What Can You Do For Your Customers?

As a Real Estate Sales Associate, you can educate your clients about these two types of policies in clear terms, so that there are no surprises. As stated earlier, the Owner's Title Policy is now required to be listed as optional on the Loan Estimate and Closing Disclosure. So it's a smart idea to assure that your client, the homebuyers, have the protection an owner's policy provides in case a title issues comes up; and not assume they are covered because they paid for a loan title policy.

HELPING YOU SHINE BRIGHT