

Title Insurance and Mortgage Guaranty Insurance



You're buying your first home or maybe a larger home to accommodate your growing family. You're at the closing, signing document after document. The subject of title insurance and mortgage insurance is mentioned. You're thinking, "How much is this going to cost and do I really need it?"

Title Insurance

Title insurance is simply protection for the lender and purchaser if there is a problem in the title or deed after the purchase is made. Problems such as a lien against the property not discovered during the initial buying process, unpaid real estate taxes or a previous co-owner failing to sign-off at a past closing could result in a loss arising from disputes over ownership of the property.

There are two different policies. One is the lender's title insurance that only protects the lender until the loan has been paid-off. Once the loan has terminated, the lender's coverage terminates as well. The other type of title insurance protects the owner and will typically remain effective while the owners or heirs have an interest in the property. Both policies can be purchased at the time of closing.

Do you have to purchase title insurance? If you are borrowing money for the property, most lenders usually will require this coverage. However, if you are paying cash for the property, it cannot be required. You should weigh the benefits of the coverage and its protection of your investment against the cost.

What does title insurance cover? The policy will pay your legal fees if you must defend your deed in court. Also, it will pay you for the loss incurred, up to the amount of coverage, if you lose the property. Prior to purchase, a careful examination is made of all public records involving the property you are buying. Items examined include, but are not limited to, deeds, prior mortgages, judgments and other liens against the property to insure they have been satisfied or paid in full.

Premiums for title insurance are usually paid by you, the buyer, and only protect against losses prior to your buying the property. You have the right to use any licensed Kentucky title insurance company. You do not have to use one recommended by your real estate agent or lender. Since you are probably bearing the entire cost of this coverage, there is not always an incentive for the lender to shop around for a cheaper premium.

Consumer tips

- Make sure your title insurance company is licensed in Kentucky. Contact our Division of Consumer Protection at 800-595-6053 (in Kentucky) or 502-564-3630 (out of state).
- Review your insurance contract to verify that coverage is adequate for the property you are purchasing and that all information is recorded correctly.
- Some insurers may give a discount if they provided coverage in the previous property transfer.
- Remember, you can choose your own insurer. You don't have to rely on the lender's referral. As with any insurance coverage – shop around.
- Finally, be sure you read and understand the policy.

Mortgage Guaranty Insurance

Mortgage guaranty, also known as private mortgage insurance (PMI), protects the lender against loss if the owner stops making mortgage payments. Typically, lenders require this type of insurance coverage when you don't have the traditional 20 percent down payment. The cost for this policy is usually passed on to you, the buyer.

Your lender must give you written information at closing explaining PMI and your rights regarding cancellation of the coverage. The lender also must send you an annual disclosure regarding PMI and your rights.

PMI will cancel automatically on most loans completed on or after July 29, 1999, once the equity has reached the required amount based on the original repayment schedule. However, if you make additional payments or if the value of your property increases, you may be able to cancel the coverage earlier. To cancel the coverage you must contact your lending institution for details about how to do so.

There are several methods of paying for PMI. A monthly premium can be added to your regular mortgage payment. The premium can be financed as a one-time premium to your loan. There are even some lenders that will pay the PMI premium for you. Usually in those cases, you will pay a higher interest rate on your loan.

As with title insurance, you have the right to purchase PMI from any licensed Kentucky insurance company offering the coverage. You do not have to use an insurer recommended by your real estate agent or lender. There may be no incentive for the real estate agent or lender to suggest the company with the lowest premium.

Consumer tips

- Make sure your title insurance company is licensed in Kentucky. Contact our Division of Consumer Protection at 800-595-6053 (in Kentucky) or 502-564-3630 (out of state).
- Remember, you can choose your own insurer. You don't have to rely on the lender's referral. As with any insurance coverage – shop around.
- Be sure you understand when the coverage can be canceled and how to do so. Review the information and annual reports from your lender.
- Finally, be sure you read and understand the policy.



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