Title Insurance—Where does your dollar go?

Title Insurance: As a homebuyer, the term is probably familiar -- but is it understood? What is your dollar actually paying for when you purchase a title policy?

Title Insurers, unlike property or casualty insurance companies, operate under the theory of risk elimination. Title companies spend a high percentage of their operating income each year collecting, storing, maintaining and analyzing official records for information that affects title to real property. Their technical experts are trained to identify the rights others may have in your property, such as recorded liens, legal actions, disputed interests, rights of way or other encumbrances on your title. Before closing your transaction, the title company will proceed to "clear" those encumbrances which you do not wish to assume.

This theory is different from that of most other insurance where, for example, rates and anticipated losses are based on actuarial studies and premiums are pooled on the assumption that a certain number of claims will be made. The distinction is important: title insurance premiums are paid to identify and eliminate potential risks and claims before they happen. Medical and casualty insurance premiums, for example, are paid to insure against an unpredictable future event, knowing that risks exist and claims will occur. Furthermore, title insurance involves a one-time premium, paid when you close the real estate transaction, while property, casualty and medical insurance require regular renewal premiums.

The goal of title companies is to conduct such a thorough search and evaluation of public records that no claims will ever arise. Of course, this is impossible -- we live in an imperfect world, where human error and changing legal interpretations make 100 percent risk elimination impossible. When claims arise, professional claims personnel are assigned to handle them according to the terms of the title insurance policy.

Title companies' rates are filed with the California Department of Insurance, and each company is required to publicly post its schedule of fees. As in all competitive business environments, rates vary from company to company, so you should make comparisons before deciding on a particular title company. Your real estate professional can help you do this. In addition, there are many helpful customer services provided by title companies which you and your real estate professional may find helpful to your transaction.

The issuance of a title insurance policy is highly labor-intensive. It is based upon the maintenance of a title "plant," or library of title records, in many cases dating back over a hundred years. Each day, recorded documents affecting real property and property owners are posted to these title plants so that when a title search on a particular parcel is requested, the information is already organized for rapid and accurate retrieval. In California, most of the large counties have been converted to computer-based title plant systems which provide retrieval from remote locations, further speeding the process of delivering the title search to the customer. This investment in skilled personnel and advanced data processing represents a major part of the title insurance premium dollar.

Proper title plant maintenance, research, evaluation, and legal interpretation are the foundations upon which a title policy rests. That is where most of your dollar goes, and that is the source of your protection and peace of mind as a homeowner in California.

This article was published by the California Land Title Association. Member companies of the California Land Title Association are dedicated to facilitating the transfer of real property throughout California and increasing the public's awareness of the value and purpose of title insurance.

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