

Title Insurance, Appraisal and Homeowner's Insurance

Some people can get confused about this stage of the real estate transaction, but with a little knowledge and guidance, it's easy to understand. We'll break down the basics for you.

Title Insurance

When you buy a home, a title company examines the chain of titles (previous owners) to insure that there are no problems with obtaining clear title to the property. Parties other than the current owner of the home may have rights to it for things such as mortgages, liens due to unpaid taxes, lien claims to those who the owner owes money for home improvement projects and so on. As a new owner, you may know nothing about these risks, but you are still vulnerable to such claims on your property. A deed is not sufficient protection. That's why title insurance is necessary.

It is very common for title companies to also handle the escrow portion of the transaction, meaning they serve as a neutral party to exchange funds and make sure both parties adhere to the agreed upon terms of the contract.

Home Appraisal

Lenders require appraisals to confirm that the home for which they're providing you a loan is in fact worth what you intend to pay. From 2008 to 2010, appraisal regulations shifted abruptly and often. Be sure to be aware of the current regulations that set parameters for what appraisers can and cannot do.

However, you are allowed – even encouraged – to work with the seller to furnish the appraiser with documentation that supports the purchase price. This documentation can include receipts and permits for home improvements and upgrades; listing sheets and tax records for comparable, recently sold properties; and evidence that some recently sold neighborhood properties were foreclosures or distress sales and thus not appropriate comparisons for your sale. The fees appraisers charge vary and are typically built into your loan costs.

Your lender may also require a location survey that certifies the house is within the boundaries of the lot. The lender often selects the surveyor, but you may have a choice.

Homeowner's Insurance

If you are not assuming the seller's homeowner's policy, you will need to buy your own. Title will not be transferred until you can prove you have the home covered by insurance. This protects you and the lender from the unforeseen, such as fire, flood, tornados, or any other damage to the home. You may also consider additional levels of insurance to cover natural disasters that are more prevalent in your area.

