

**YOUR  
GUIDE  
TO  
TITLE  
INSURANCE**

# what is title insurance & why do you need it?

**P**urchasing a home is one of the biggest investments you can make in your life. You insure it against hazards such as fire, theft and weather damage. You should also insure your ownership of the property.

*In order to access your property's equity to obtain a loan, or to sell or transfer it in the future, you must have clear, unencumbered legal rights of ownership. Title insurance is your policy of protection against loss resulting from a claim against the ownership of your property.*

## COVERAGE

A title insurance policy is like a pre-paid legal agreement. The title insurance company will provide legal defense for any covered claim against your property and will reimburse you financially for any losses resulting from hidden defects in your ownership rights.

## COMMON CLAIMS AGAINST TITLE

Whether your property is a vacant lot or an historic site, it has likely had many previous owners. When the property changes ownership, or when it is used as a collateral for a loan, these transactions are documented in the public record. Your title company searches the public record for any problems that prohibit your clear ownership.

## TYPES OF POLICIES

### Owner's Policy

An owner's policy protects the owner of the property against any loss resulting from defects on the title including another party's claim to ownership of the property.

### Lender's Policy

This policy insures that the holder of the mortgage has a valid lien on the property and protects the holder of the mortgage against loss from title defects.

**C**laims against your property can happen for a variety of reasons. Below are some of the most common:

- Fraud
- Forgery
- Defective deeds
- Mental incompetence
- Clerical errors in the records

## THE PROCESS

The title process begins with your title insurance company, who searches and examines public records to disclose the current facts relating to the ownership of the piece of real estate including:

- The property's current owner
- Any liens or encumbrances against the property or its owner
- Easements and/or restrictions
- Other recorded interests

With this information, the buyer, seller, real estate agent, attorney, lender and settlement agent can work toward closing the transaction. After the proper documents have been recorded, a title insurance policy is issued to the new owner and/or their lender.

## COSTS

The cost of title insurance includes the title search, examination and closing costs, and is figured as a percentage of the cost of the property. Unlike other insurance premiums, which must be paid annually, a title insurance premium is paid one time, at the closing. The policy guarantees all transactions occurring through date of the closing.

# The closing

**W**hether you are purchasing your first home or your fifth, the day of the closing is a time to celebrate. Up to this time, your escrow team, real estate agent and lender have been working together to ensure that transaction amounts are balanced according to the purchase contract and each participant's loan program. At the closing, the appropriate parties will meet, sign deeds and other documents, deliver mortgage funds, and fulfill other legal obligations associated with the purchase.

## WHAT TO EXPECT

The closing process follows a legal document called the HUD. In this document, required by the Department of Housing and Urban Development, the transaction is broken down into an itemized balance sheet that lists the debits and credits attributed to the buyer and the seller.

Following this format, closings frequently occur in two phases:

- First, the property title is transferred from the seller to the purchaser.
- Second, the deed of trust and promissory note are signed by the purchaser and held by the lender.

## PARTICIPANTS

For a successful closing, each participant must understand their role and how they fit within the transaction process. Participants often include:

**Escrow Officer** represents the title company and is responsible for gathering information about any financial obligations associated with the property. Unpaid loans, outstanding property taxes, water and sewer, and homeowners association dues are all entered into a balance sheet to be paid at the closing. During the closing, he/she will serve as a neutral third-party who distributes documents and funds according to the terms of the purchase contract or formal agreement, and as legally required by the HUD.

**Seller & Purchaser** represent their respective interests in the transaction.

**Realtor** serves as a negotiator and arbitrator for his or her client, and can explain the closing process as it occurs.

**Lenders** may be present to protect their interest in the property by insuring that the purchaser is receiving property with clear, unencumbered title.

**Attorneys** may be present to protect the interest of their clients.

While it is not essential that all of the above parties attend the closing, it is important that the rights of both the buyer and the seller are fully protected.

Your real estate agent or lender can provide you with additional information about how to best protect your interests when buying or selling a property.

## CLOSING DAY SUGGESTIONS

- A few days prior to the closing, check with your real estate agent about any final changes made to your contract.
- Bring a cashier's check, payable to yourself in the amount necessary to close the transaction.
- Bring 2 forms of identification – a current driver's license is best, however a state photo ID is also acceptable.



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