ISSUE 53

LAWYERS LINK

WHY YOU NEED A NEW LENDER'S TITLE INSURANCE POLICY FOR A REFINANCE

When interest rates drop enough to offer substantial savings on your loan costs, it's natural to think about refinancing. Refinancing your mortgage means trading in your current mortgage for a newer one. You apply for a new mortgage against your home and pay off the remaining balance of your existing loan. This gives you the opportunity to adjust the term of your loan, change the interest rate, or pull equity out of your home as cash that you can use for other purposes.

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Lawyers Title®

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When you refinance, you are required to pay closing costs, just like when you signed on your original loan. Refinance closing costs usually run between 2%-6% of the loan amount on your mortgage, and include service fees, points, title insurance protection, and other expenses.

What is title insurance, again?

Title insurance is a policy meant to protect homebuyers and mortgage lenders from damages or financial losses caused by a bad title due to title defects. Most title insurance policies cover all the common claims filed against a title, including outstanding liens, back taxes, recording errors, and conflicting wills.

There are two types of title insurance policies.

The owner's policy protects the homebuyer. A lender's policy protects the lender. Most lenders usually require a lender policy when they issue you a loan. It only protects the lender's interests in the property should a problem with the title arise. It does not protect the homebuyer. The policy amount decreases each year and eventually disappears as the loan is paid off. An owner's policy, usually issued in the amount of the real estate purchase, provides protection for as long as you or your heirs have an interest in the property.

Why do I need to purchase a new lender's title insurance policy when I refinance?

The original lender's title insurance policy protects the lender's interest on the original loan. With the new refinanced loan, the original loan will be paid off, and the new lender will require protection of its interest in the new loan. From the lender's standpoint, a refinanced loan is no different than any other mortgage loan. In addition, if the loan is sold in the secondary market, investors like Fannie Mae will require the security of title insurance on the property.

Didn't the original title search resolve ownership issues?

The lender needs the title examined again to make sure that no liens or judgments, such as liens filed by contractors, child support liens, legal judgments, or other encumbrances have been recorded since you purchased your home. Providing your lender with title insurance protects the lender's security interest in your property.

Do I also need to get a new owner's title policy?

You'll be glad to know that your original owner's title insurance policy protects your ownership rights for as long as you own your property so there's no need to get another owner's policy on a refinance loan.

For more information, contact your Lawyers Title Sales Executive.

This information is deemed reliable but not guaranteed and is for informational purposes only.

MONTHLY INDUSTRY TERMS

Private Mortgage Insurance
In the event that a buyer does not have a 20% down payment, lenders will allow a smaller down payment—as low as 3% in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will usually require an initial premium payment and may require an additional monthly fee, depending on the loan's structure.

Assumption of Mortgage
An obligation undertaken by a new purchaser of land to be liable for payment of an existing note secured by a mortgage.

Caps
Consumer safeguards that limit the amount the interest rate on an adjustable rate mortgage can change at each adjustment or over the life of the loan.