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A First-Time Homebuyer's Guide to Title Insurance and Title Companies

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You saved for your downpayment, hired a realtor, and obtained pre-approval for a loan from your lender. Now, the sellers accepted your offer, and you are well on your way to purchasing your first home. What happens next? An important but rarely discussed real estate topic is the role of title insurance and title companies.

Why You Need Title Insurance

Title insurance protects homeowners and/or mortgage lenders from financial losses caused by defects or problems with a property's title. It is a one-time purchase for protection that lasts as long as you own the property, and allows for a thorough inspection of the property's title.

Although you (the buyer) and seller could simply execute a deed which would appear to convey the property, there are risks associated with taking title to a property without inspecting a title search itself. Taking title to the property without title insurance means that if there are any liens, encumbrances, or other title issues that buyer was unaware of at the time, simply being unaware is not a defense. A buyer's right to own, use, and enjoy the property might be severely impacted or limited by these unknown title defects, and their investment in that property would be unprotected.

Without title insurance, a buyer would be solely responsible for clearing the issues, finding the appropriate parties to resolve the deficiencies, and potentially paying out of pocket to resolve quickly. Although seeking reimbursement or compensation from the seller might be a possibility, it will be the buyer's responsibility to find the seller and seek any recovery in court which can be costly and time consuming.

If a buyer has title insurance, any defects or title issues which may arise after closing will be resolved/coordinated by the title company. Instead of the buyer being left to find a way to resolve the issue, the title company will work with the buyer to find a way to either compensate or resolve the claim in a timely fashion. A buyer's investment in the real estate is essentially safeguarded by the title company, and the buyer will have peace of mind knowing that they will have support if a title issue is discovered.

Title Company's Role

Once a purchase agreement is signed, a buyer can obtain title insurance by contacting a title company.

What is a title company? In Pennsylvania, a title company is an intermediary between the buyer, seller, and lender that will work with all parties to coordinate closing. The title company is responsible for reviewing and preparing documents and forms (outside of any loan documents) which will be executed at closing to make sure that the documentation accurately conveys ownership of the property to the buyer.

The title company will obtain and review a title search to verify the party or parties who own the property, as well as identify any potential liens and encumbrances that impact the ownership of the property such as easements, encroachments, restrictions, outstanding mortgages, recorded leases, and/or judgments, etc.

Once a title company has reviewed the public record and title search, they will issue a title commitment which will detail any conditions and requirements which need to be met before the property can be conveyed to the buyer.

Once the title company has all the documentation or information necessary to meet the conditions and requirements as contained in the title commitment, and has prepared or received and approved all documents which need to be signed by the parties at closing, the title company will schedule and facilitate the closing process itself. At closing, the title company will receive the closing funds (through wire or certified funds). Once all documents are signed and funds are received, the title company will manage the disbursement of those funds to the parties in the amounts pursuant to a settlement statement or closing disclosure. The settlement statement/closing disclosure will be provided to the buyer and seller to review, and both parties will sign agreeing to the disbursements therein.

In Pennsylvania, the role of a title company is important, as the title company typically drives the closing transaction once the purchase agreement is signed. Although many realtors and lenders may have a preferred choice of title company, unless a choice is made in the terms of the purchase agreement, a buyer has the ultimate choice of title company. If you, as the buyer, have one in mind, you can include it in the purchase agreement or let your realtor and lender know as soon as possible that you have chosen a title company to handle the transaction. It is important to communicate this early to mitigate any issues with your choice of title company, as well as avoid the risk of multiple parties ordering a title search from different companies at the same time.

Knox Law's Title Company

Purchasing your first home can be an overwhelming process, but protecting your investment doesn't have to be. Choosing the correct title company will ensure that closing is smooth and seamless, and give you the peace of mind that if any issues arise in the future you will have the support and security you need.

Knox Law's real estate team is fully equipped to assist with residential or commercial property purchases or sales from purchase agreement negotiation to closing. Knox Law has licensed title agents (licensed in New York, Ohio, and Pennsylvania) available to you to ensure your investment is protected.



Jacqueline H. Brangard

Jacqueline's practice is focused on all aspects of real estate law, including both commercial and residential sales, acquisitions, and commercial leases. She has extensive experience in negotiating and preparing leases, amendments, assignments, estoppel certificates, and subordination agreements. She has also advised clients (sellers, buyers, and private lenders) through the real estate closing process.

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