Buying a Home and Your Insurance Needs

This publication includes information on:

Homeowner's Insurance
Private Mortgage Insurance
Title Insurance
Flood Insurance
Other Insurance Options to Consider

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Office of the Commissioner of Insurance
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The mission of the Office of

the Commissioner of Insurance . . .

Leading the way in informing and protecting

the public and responding to their insurance needs.

If you have a specific complaint about your insurance, refer it first to the insurance company or agent involved. If you do not receive satisfactory answers, contact the Office of the Commissioner of Insurance (OCI).

To file a complaint online or to print a complaint form:
OCI's Web Site
oci.wi.gov

Phone
(608) 266-0103 (In Madison)
or
1-800-236-8517 (Statewide)

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Please indicate your name, phone number, and e-mail address.

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Publications are updated annually unless otherwise stated. Publications are available on OCI's Web site **oci.wi.gov**. If you need a printed copy of a publication, use the online order form or call 1-800-236-8517.

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There are few things in life more important than buying, owning, and protecting your home. While you have invested thousands of dollars in purchasing your home, it is also a place where many of your most personal memories are made. It provides you and your family a safe place. As a result, it is important to insure it properly. This publication discusses some of the insurance requirements and costs associated with purchasing a home.

Homeowner's Insurance

Homeowner's insurance is a package policy providing property insurance protection to your home and personal belongings and liability insurance protection to you and your family members if you are found negligent for injury or property damage to someone else. Most lenders will require you to carry enough homeowner's insurance to cover the amount of your mortgage. This may be either too little or too much coverage for your individual needs. In the event of damage or destruction to the property, if you did not have enough homeowner's insurance, the lender's investment may be the only portion covered. This may pay off the mortgage, but you will lose any money you invested.

Generally, your lender will require you to have a homeowner's insurance policy in force at the time of closing. Your lender will usually request a copy of the policy and cover page showing coverage amounts.

Your lender will also require you to name the lending institution as a loss payee (i.e., protects the lending institution in case of loss). You are not required to purchase insurance from the insurer recommended by your lender. However, if you fail to keep your coverage in force, the lending institution will purchase coverage protecting its interest and you may have to pay for this coverage. This type of coverage is typically more expensive than an insurance policy you may purchase and provides less coverage.

Buying Homeowner's Insurance

Before buying homeowner's insurance, you need to understand the difference between "replacement cost" and "actual cash value."

Replacement cost is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality, without deducting for depreciation. Depreciation is the decrease in home or property value since the time it was built or purchased because of age or use.

Most homeowner's insurance policies contain replacement cost coverage on the home and actual cash value coverage on personal property. In order to qualify for full replacement cost coverage, the building is required to be insured at 80% to 90% of the replacement cost. The amount of replacement cost coverage available is limited to the amount of insurance you choose to buy. The coverage amount is stated on the declarations page of your policy.

Note: It is important to discuss with your insurance agent the appropriate coverage amount for your situation.

If you purchase an amount less than 80% to 90% of the amount required to have replacement coverage, your insurance company will not be obligated to pay the total amount of loss to your home even if there is a small loss. The "loss settlement" section of your policy explains how the settlement is calculated.

Do not confuse replacement cost with market value. Market value is a real estate term describing what the current value of your home would be if you were to sell it, including the price of the land.

Most homeowner's insurance policies include an inflation-guard. This automatically increases the value of your policy as the value of your home increases. **<u>Even with an inflation-guard, homeowners should check with their insurer periodically to determine whether thier home is fully insured</u>.**

Actual cash value is the value of your property when it is damaged or destroyed. This is usually figured out by taking the replacement cost and subtracting depreciation. Contents coverage (i.e., furniture, computers, television sets, and appliances) is usually calculated on an actual cash value basis. For example, a $500 chair may have a reasonable "life span" of 20 years. If it is destroyed after 10 years, due to depreciation its actual cash value will be much less than $500.

Most policies pay for losses to your contents on an actual cash value basis, but a better option is replacement cost coverage. Although the cost is higher, in most cases, the extra protection may be worth it. Replacement cost coverage is available for an additional premium.

Lender-Placed Insurance

If you have a mortgage, your lender will require you to have a homeowner's insurance policy to protect the property from loss. Usually, the lender will collect information on your homeowner's policy in order to verify coverage is in place. If the lender finds you do not have coverage, they may work with an insurer to issue an insurance policy to protect the lender's interest. The lender will add the cost of the policy to your mortgage bill.

These policies, known as lender-placed policies, are usually much more expensive than a homeowner's policy you could have purchased. These policies are also written to protect the lender's interest in your property and not the interests of the homeowner. It is important for a homeowner to replace the lender-placed policy with their own policy as soon as possible. If you changed coverage and did not notify your lender, you should provide them with policy information. Most lender-placed insurance policies will provide a refund of premiums if the consumer can show coverage was already in place.

The Wisconsin Insurance Plan

If you try several insurers and cannot find coverage, you most likely can be insured through the Wisconsin Insurance Plan (WIP). WIP is a risk-pooling arrangement in which all companies selling property insurance in the state share the risk of insuring homeowners who have difficulty securing coverage with regular insurance companies.

WIP provides basic insurance coverage for the properties it insures including damage from fire, wind, vandalism, vehicle damage, and theft. Other causes of loss are also covered. Homeowner policies include personal liability coverage.

All properties insured by WIP must first be rejected for coverage by a licensed insurance company. When property is rejected, the owner is notified of the existence of WIP. **All licensed agents must assist a property owner in applying to WIP.** However, WIP does not have sales agents.

NOTE: WIP is property insurance of the last resort. Consider WIP only if you cannot obtain insurance from any other insurance company.

For more information on the WIP, contact WIP at:

Wisconsin Insurance Plan
600 West Virginia Street, Suite 101
Milwaukee, WI 53204
(414) 291-5353 Phone
(414) 291-5365 Fax
www.wisinsplan.com

OCI has a publication explaining the basic coverages included in homeowner's and renter's insurance policies, the types of policies, what you should do if you have a loss, and the Wisconsin Insurance Plan. The publication *Consumer's Guide to Homeowner's Insurance* is available on OCI's Web site at oci.wi.gov/Documents/Consumers/PI-015.pdf or by calling 1-800-236-8517.

Private Mortgage Insurance (PMI)

If your down payment is less than 20%, most lenders will require you to carry private mortgage insurance. Private mortgage insurance makes it possible for you to obtain a mortgage with little or no down payment.

Private mortgage insurance is a type of insurance to protect lenders against losses due to borrower default and subsequent foreclosure on the home. This protection is provided by private mortgage insurance companies and allows lenders to accept lower down payments than would normally be allowed.

When determining if a mortgage loan should be made, a lender wants to ensure the property in question can be sold without loss in the event the borrower defaults. If a borrower applies a down payment of 20%, the lender only has to lend 80% of the property's value. If the lender had to foreclose on the property and sell it for 80% of its value, the lender would not lose any money.

Private mortgage insurance is used with conventional financing only. A conventional mortgage is a loan not obtained under a government-insured program. Conventional mortgage loans are typically held by institutional investors such as Fannie Mae, Freddie Mac, banks, or insurance companies.

Private mortgage insurance is usually paid for by the home buyer but the lender is the insured and receives any insurance benefits. If the lender pays for the private mortgage insurance, they will generally pass the cost on to the borrower. The buyer has some influence over the choice of insurer but ultimately the lender must be satisfied it will be able to recoup any losses in case of default.

Private mortgage insurance can be paid on either an annual, monthly, or single premium plan. Premiums are based on the amount and terms of the mortgage and will vary according to loan-to-value ratio, type of loan, and the amount of coverage required by the lender.

Under an annual plan, an initial one-year premium is collected up front at closing, with monthly premiums collected along with the mortgage payment each month thereafter. Monthly plans allow a borrower to pay the lender on a monthly basis along with the regular mortgage payment. Under a single premium plan, the entire premium covering several years is paid in a lump sum at closing. Typically, home buyers choose to add the amount of the lender's single premium mortgage insurance premium to the loan amount. By doing this, home buyers can reduce their closing costs and increase their interest deduction.

The decision of when to cancel the private insurance coverage does not depend solely on the degree of your equity in the home. The final say on terminating a private mortgage insurance policy prior to 22% equity buildup is reserved jointly for the lender and any investor who may have purchased an interest in the mortgage. **Because of the wide variation in lender, investor, and state requirements, it is necessary to consult your lender on cancellation requirements.** However, according to federal law, the mortgage insurance will be automatically terminated when the loan is paid down to 78% of the original property value.

Title Insurance

When purchasing a home or other real estate, you actually do not receive the land itself. What you acquire is title to the property, which may be limited by rights and claims asserted by others.

Protections against hazards of title are available through a unique coverage known as title insurance. Title insurance is purchased for a one-time premium and is a safeguard against losses arising from hazards and defects already existing on the title.

Title insurance protects the insured from losses as the result of claims on one's ownership of real estate. It insures from problems occurring even before the insured possesses the title. The following are some of the most common problems covered by title insurance:

- Fraudulent or misrepresented deeds, releases, etc.
- Recording mistakes
- Undisclosed missing heirs
- Unfiled liens
- Incompetency of previous sellers
- Erroneous interpretations of wills
- Bankruptcy
- Fraudulent or forged deeds

The title insurance policy obligates the insurer to pay you if the policy does not disclose things affecting the title that may be found by examining public records, including deeds, mortgages, wills, divorce decrees, court judgments, tax records, liens, encumbrances, and maps. The title search determines who owns the property, what debts are owed against it, and the condition of the title.

Another feature of title insurance is the obligation of the insurer to defend you against claims of others covered by the policy, regardless of their validity. A title insurance company must defend your title in court, subject to certain limitations, and if it loses, the company pays covered losses up to the face amount of the policy.

Types of Title Insurance

There are two types of title insurance policies: owner's coverage and lender's or mortgagee protection.

Owner's Title Insurance—Owner's title insurance is usually issued in the amount of the real estate purchase and lasts as long as the insured or his/her heirs have an interest in the property.

Lender's Title Insurance—The amount of lender's title insurance decreases and eventually disappears as the loan is paid off. Most lenders require mortgagee title insurance as security for their investment, just as they may require other types of coverage as investor protection.

Do I Need Both Types of Coverage?

Yes, when you borrow money to buy a home, the lender typically requires you buy title insurance to protect its interest in case of foreclosure. This is to make sure whoever sells you the property has a legal right to do so.

A lender's policy does not protect you. Similarly, the prior owner's policy does not protect you. If you want to protect yourself from claims by others against your new home, you will need an owner's policy. When a claim does occur, it can be financially devastating to an owner who is uninsured. If you buy an owner's policy, it is usually much less expensive if you buy it at the same time and with the same insurer.

The owner's policy remains in effect as long as you or your heirs own the property or are liable for any title warranties made when the property is sold. You should keep your policy, even if you transfer the title. Your owner's title policy cannot be transferred to a new owner. If the new owner wants an owner's title policy, there must be a new policy issued.

Buying Title Insurance

Title insurance is sold both directly by title insurers and by their agents in a specific geographic area because of the need to examine local records. In exchange for the premium, the title insurance agency searches local records to trace the ownership and sale of the property.

Title insurance is significantly different from other forms of insurance in its nature. Many people mistake title insurance for casualty insurance. Casualty insurance provides coverage for losses due to unforeseen future events, such as if your house burns down or a tornado takes off the roof. Title insurance eliminates risks and prevents losses in advance by extensively searching records and examining titles to property for defects arising from past events.

Title insurance companies and agents are licensed by OCI. Title insurance is sold directly by an insurance company through a title insurance agent. A title agency is authorized by a title insurance company to issue policies for the company. In all states, agents and insurance companies must be licensed to sell insurance. To find out the name of the insurance company underwriting a title insurance policy, you will need to call the title agency and ask the name of the insurance company and the name of the title insurance agent. Licensing information about agents and companies can be found on OCI's Web site at oci.wi.gov under Online Services or by calling toll-free 1-800-236-8517.

Cost of Title Insurance

Most of the cost for title insurance involves searching public land records, tax assessor records, and court documents analyzing them for risk, clearing matters to be disposed of, and preparing the necessary documents.

Unlike other insurance premiums, a title insurance premium is paid only once. The policy is effective as long as the title or "ownership" remains in the name of the insured or his or her heirs. Title insurance, unlike other types of insurance coverage, does not have to be renewed.

Exceptions and Exclusions

Title insurance protects you against problems someone else caused in the past and not those you caused or those unrelated to you or the lender's property interests.

A title insurance policy contains exclusions and exceptions. It does not cover losses under those exclusions or exceptions. You should consider discussing the policy's exceptions and exclusions with a title insurance agent or attorney before closing any real estate purchase. Schedule B of your title policy lists exceptions and exclusions on the Exclusions page.

Alternatives to Title Insurance

You may be given alternatives to traditional title insurance coverage. For example, in rural areas many transactions are done with an abstract of title with an attorney's opinion. Sometimes these transactions do not fall under insurance regulation. You should carefully consider any alternatives to see if they meet your needs. Some title insurance alternatives do not provide insurance coverage or any type of protection for the owner. Those plans are designed to satisfy the needs of lenders. The cost of the plan is passed on to the consumer the same as title insurance or other title opinion costs.

Ask the provider of the alternative plan what insurance, legal opinion on ownership, or other protection the plan provides to protect your investment in ownership in the property. Find out if you receive an owner's policy of title insurance.

Federal Housing Administration and Veterans Administration Mortgages

You may be eligible for a loan insured through the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA). FHA and VA insurance also protect the lender against borrower default under a government program rather than through the private enterprise system.

The FHA and VA programs enable lenders to arrange financing for the borrower with minimal or no down payment. When borrowing under these programs, you will pay a Mortgage Insurance Premium (FHA) or a Funding Fee (VA) to insure the mortgage. This is similar to private mortgage insurance on a conventional loan. These insurance premiums may be paid out-of-pocket at the time of closing or financed by increasing the mortgage amount.

Although many of the insurance policies discussed above are required as protection for a lender, they can be very beneficial to the borrower as well. Homeowner's, flood, and title policies can ease a homeowner's financial burden in the event of unpleasant surprises, while mortgage insurance allows a buyer to get into a home with a minimal down payment.

Flood Insurance

Homeowner's insurance does not cover most flood damage. To obtain flood coverage, you must purchase it from The National Flood Insurance Program (NFIP). NFIP was created by the National Flood Insurance Act of 1968. Two subsequent laws, the Flood Disaster Protection Act of 1973 and the National Flood Insurance Reform Act of 1994, have made the purchase of flood insurance mandatory for federally backed mortgages on structures located in special flood hazard areas.

NFIP is a federal program enabling property owners to purchase insurance protection against losses from flooding. This insurance is designed to provide an insurance alternative to disaster assistance to meet the escalating costs of repairing damage to buildings and their contents caused by floods.

Participation in NFIP is based on an agreement between local communities and the federal government. If a community will implement and enforce measures to reduce future flood risks to new construction in special flood hazard areas, the federal government will make flood insurance available within the community as a financial protection against flood loss occurrences.

NFIP is administered by the Federal Insurance & Mitigation Administration (FIMA), a component of the Federal Emergency Management Agency (FEMA), and an independent agency. FIMA has elected to have state-licensed companies' agents and brokers sell flood insurance to consumers. State regulators hold the insurance companies' agents and brokers accountable for providing NFIP customers with the same standards and level of service the states require of them in selling their other lines of insurance.

The lender must first determine whether the structure is in a Special Flood Hazard Area (SFHA). For all properties in an SFHA, lenders must require flood insurance when making, increasing, extending, or renewing a loan. This requirement only applies when the structure is in the SFHA, not the lot. Lenders must ensure coverage remains in effect for the life of the loan.

If a loan has escrows for taxes, insurance or for any other reason, the lender must then escrow for flood insurance too. Lenders are required to notify borrowers if their home is in an SFHA and allow buyers 45 days to purchase flood insurance. After 45 days, lenders have the statutory authority to force place (obtain a policy) coverage for flood insurance.

If a buyer believes the flood zone determination was in error, the buyer and the lender must jointly request a review from FEMA with supporting technical information.

The best person to help you buy flood insurance is the agent or the insurance company from whom you obtain your homeowner's or automobile insurance. However, flood insurance may be bought through any licensed property or casualty insurance agent in Wisconsin.

Some insurance companies actually issue the flood insurance policies, in partnership with the federal government, as a service and convenience for their policyholders. In those instances, the insurance company handles the premium billing and collection, policy issuance, and loss adjustment on behalf of the federal government. These insurance companies are called Write Your Own (WYO) insurers. If your agent or insurance company is not in the WYO program you may be referred to another agent or insurance company involved in the program. Your agent may also order the policy for you directly from the federal government.

For more information on flood insurance contact the NFIP Regional Office:

Annette Burris CFM
P.O. Box 407
Petersburg, IL 62675
(217) 632-7210 Phone
(217) 632-7210 Fax
aburris@nfip-iservice.com
www.floodsmart.gov

OCI's publication titled *Settling Property Insurance Claims* describes what to do after a loss, how to settle an insurance claim, flood insurance, and tips on what to do before a loss. A free copy is available on OCI's Web site at oci.wi.gov/Documents/Consumers/PI-084.pdf or calling toll-free 1-800-236-8517.

Other Coverages to Consider

Many mortgage lenders offer life and disability insurance policies for their borrowers. These types of insurance policies are not required to obtain financing but they may be appropriate for certain home buyers. **Remember, it is always important to shop around for coverage.**

Life Insurance

A life insurance policy will pay off your mortgage loan in the event of death if the death benefit is equal to or greater than the amount of your mortgage. Not all life insurance policies are the same. Some give coverage for your lifetime and others only cover you for a specific number of years. Some policies may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford.

Term insurance covers you for a term of one or more years. It pays a death benefit only if you die during the term. Term insurance generally offers the largest insurance protection for your premium dollar. It generally does not build up cash value.

Cash value life insurance is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium not used for the cost of insurance is invested by the company and builds up a cash value, which may be used in a variety of ways. You may borrow against a policy's cash value by taking a policy loan. If you do not pay back the loan and the interest on it, the interest continues to accrue. The amount you owe will be subtracted from the death benefit when you die or from the cash value if you stop paying premiums and surrender the policy.

As a consumer, you need to make an informed decision when purchasing a policy. For more information on life insurance policies you can review the National Association of Insurance Commissioners' publication *Life Insurance Buyer's Guide* at www.insureuonline.org/consumer_guide_life.pdf.

Disability Income Insurance

Anyone who works should consider disability income insurance to help replace income lost because of long-term injury or illness. It is much more likely you will become disabled rather than die as a result of an accident or illness. Therefore, adequate disability income coverage is important.

The amount of the weekly or monthly benefit provided may be stated as a percentage of income or as a set dollar amount. The amount of benefit for which you may qualify is usually based on a percentage of your gross earnings, normally around 60%. Some policies may reduce your benefit by the amount you receive from social security or worker's compensation.

Disability income policies may specify benefits will not be paid to a disabled person if the disability results from certain conditions. Check the policy for any exclusions or limitations.

There are numerous types of disability income insurance policies available. You should be an informed consumer, looking at the different products, policies, and benefits each provide. All disability income policies have waiting periods before benefits become payable. The waiting period starts after you become disabled for a covered disability. The longer the waiting period, the lower the premium will be.

The periods of time for which benefits are payable may also vary considerably. Benefit periods may depend on whether the disability was caused by an accident or illness. Generally, the longer the benefit period, the higher the premium will be. Partial disability benefits may also be available.

Every policy contains a definition of what is considered total disability, and the definitions can vary from policy to policy. One defines a total disability as an individual unable to perform their occupation. Under this definition, benefits are typically paid for a period of time, often one or two years. After this time period, the definition is much more comprehensive requiring the individual as unable to perform any occupation for which the individual is suited by education or experience.

If possible, it is advantageous to purchase disability income insurance through a group as the premium may be less than on an individual policy. However, if group coverages is not available, it is possible to find affordable individual coverage.

Some questions to consider are:

- Does it cover both injury and sickness? Is it for partial or total disability?
- How long will benefits be paid? What is the weekly or monthly benefit?
- How much of your income will be replaced?
- What does it cost?
- Is it guaranteed renewable?

Determining whether you need disability insurance is a personal choice. You must decide how much financial risk you are willing to assume should you suddenly find yourself unable to work for an extended period. How many months can you rely on your savings? How easy will it be for you to rebuild your nest egg for your retirement years? Can your spouse's income cover the lost salary?

There are also disability policies available to you in regards to a consumer credit transaction where the proceeds are used to repay a debt or an installment loan in the event you become disabled from an accident or illness. For more information on credit transactions read the publication *Fact Sheet on Credit Insurance* on OCI's Web site at oci.wi.gov/Documents/Consumers/PI-205.pdf.

Insurance Marketing

For the most part, insurance is sold directly or through an agent or broker. An independent agent may represent more than one, and sometimes several, insurance companies. An exclusive or captive agent sells solely for one insurance company or group of related companies. Independent agents, as well as exclusive agents, may place business with another company if the company(s) he or she represents does not write the type of insurance needed. A broker represents you in dealings with an insurance company.

When you first talk to an agent, be sure he or she is willing and able to explain various policies and other insurance-related matters. An agent should look for ways to get you the most protection at an affordable cost. Make certain your agent agrees to review your coverage from time to time, advises you about other financial services, and assists you when problems develop.

Many agents are interested in selling package products or services to as many people as possible. While there is nothing wrong with low-cost, standardized products, they should fit your needs. If you are not convinced a particular agent understands your needs and will give you the service you want, seek another agent.

Friends may have some recommendations. If not, try the internet. If you travel frequently, you may want to check with your company or agent to find out how to file a claim when you are out of the area.

In all states, agents and insurance companies must be licensed to sell insurance. Licensing information about agents and companies can be found on OCI's Web site at oci.wi.gov under Online Services or by calling toll-free 1-800-236-8517.

Consumer Buying Tips

There are several items to keep in mind when buying almost any type of insurance:

- **Shop Around.** Insurance premiums can vary substantially from company to company so it usually pays to check with several companies before making a final choice.

- **Choose a Deductible.** If you are buying homeowner's insurance, you can often save money by purchasing a policy with a higher deductible. A deductible is the amount of the claim for which you are responsible. The higher the deductible, the lower your premium. With a higher deductible you could pay for relatively small expenses out-of-pocket and leave major losses to the insurance company.

- **Shop for Discounts.** Insurers give discounts when you package your auto and homeowner's insurance.

- **Do Not Pay Cash.** Always pay the agent or insurance company with a check, money order, debit card, or credit card. This will be your proof of payment.

- **Take Advantage of "Free-Look" Periods.** Life insurance policies usually include a 10- or 30-day free-look period. This means you can return the policy within the free-look time and get the entire premium back.

- **Think Twice About Replacing a Life Insurance Policy with a New One.** A new policy may include waiting periods or exclusions covered in your existing policy.

- **Read Your Policy Carefully—Particularly Any Sections Relating to Exclusions and Limitations.** The time to understand your policy is before you have to make a claim.

- **File Claims Promptly.** The sooner you file claims, the sooner you will receive payment. Once an agreed dollar amount settlement has been reached, the insurance company is required, by law, to pay claims within 30 days or to pay interest on the claim amount.

While the price you pay is important, buying the least expensive policy is not necessarily a good idea. Insurance sounding too good to be true probably is. However, looking only at benefits could result in paying a higher than necessary premium. You should consider all of the following when choosing a company and a policy:

- Premium
- Benefits, including any coverage exclusions or limits
- Service (what's involved in making a claim?)
- Renewability (how easily can your policy be canceled?)
- Financial strength and reliability of the company
- Company management philosophy

Problems with Insurance

If you are having a problem with your insurance, you may want to first check with the agent or company who sold you the policy. If the conflict is not resolved to your satisfaction or if you prefer, you may file a complaint with OCI. An online complaint form is available at ociaccess.oci.wi.gov/complaints/public/.

OCI investigates complaints to determine if any insurance laws have been violated. If so, the office may take action against the agent or company involved. These actions include imposing fines or suspending or revoking licenses.

Make sure you have included detailed information about your insurance complaint. The more complete and accurate this information is, the more likely your complaint can be resolved. *Be sure to include the correct name of the insurance company and the details of your complaint.* Many companies have very similar names. Listing the wrong name may delay the investigation of your complaint.

Glossary

Abstract: A transcript of the text of each instrument that has affected the land from the patent to the certification date.

Appraisal: An estimate of value.

Binder: A temporary or preliminary agreement providing coverage until a policy can be written or delivered.

Claim: A request made by the insured for insurer remittance of payment due to loss incurred and covered under the policy agreement.

Closing process: All of the necessary functions performed between the time the sales contract is signed and the time the legal title to the property (the deed) is delivered.

Construction lien: A person or company who builds or replaces a building or permanently attached improvement to the land has a right to a lien on the property. The lien begins on the day the work commences, but a lien notice is not required to be filed until six months after the lienholder's last work is supplied.

Conventional mortgage: A loan not obtained under a government-insured program such as FHA or VA. Conventional mortgage loans are typically held by institutional investors such as banks or insurance companies.

Declarations page: The page attached to the front of a homeowner's insurance policy including policy statements regarding the applicant and property covered such as demographic and occupational information, property specifications, and expected mileage per year.

Deductible: Portion of the insured loss (in dollars) paid by the policyholder.

Deed: A written document by which the ownership of land is transferred from one person to another.

Depreciation: A decrease in the value of property due to wear and tear or obsolescence.

Endorsement: An amendment or rider to a policy adjusting the coverages and taking precedence over the general contract.

Escrow: A procedure whereby a disinterested third party handles legal documents and funds on behalf of a seller and buyer. Money or other obligations is kept by the mortgage company to ensure taxes can be paid in full when due.

Examination: A thorough review of the abstract or title search to determine the condition of title to the real estate (who owns it, if the taxes are paid, what use restrictions there may be, etc.).

Exclusions: Certain causes and conditions listed in the policy not covered.

Face amount: The amount stated in the insurance policy paid in the event of death. It does not include dividend additions or additional amounts payable under other special provisions.

Fannie Mae: A federally sponsored private corporation which provides financial products and services increasing the availability and affordability of housing for low-, moderate-, and middle-income home buyers.

Federal Housing Administration (FHA): An agency of the federal government insuring private loans for financing of new and existing housing and for home repairs under government-approved programs.

Freddie Mac: A stockholder owned corporation chartered by Congress to increase the supply of funds mortgage lenders, such as commercial banks, mortgage bankers, savings institutions, and credit unions, can make available to home buyers and multifamily investors.

Independent agent: A representative of multiple insurance companies who sells and services policies for records which they own and operate under the American Agency System.

Insurance: An economic device transferring risk from an individual to a company and reducing the uncertainty of risk via pooling.

Insured: Party(s) covered by an insurance policy.

Judgment: A decree of a court.

Lien: A hold, a claim, or charge allowed a creditor upon the lands of a debtor.

Loan-to-value ratio: The relationship between the amount of the mortgage loan and the appraised value of the property as a percentage.

Market value: Fair value or the price derived from current sale of an asset.

Personal property: Single interest or dual interest credit insurance (where collateral is not a motor vehicle, mobile home, or real estate) covers perils to goods purchased or used as collateral and concerns a creditor's interest in the purchased goods or pledged collateral either in whole or in part; or covers perils to goods purchased in connection with an open-end credit transaction.

Policy: A written contract ratifying the legality of an insurance agreement.

Premium: Money charged for the insurance coverage reflecting expectation of loss.

Property coverage: Coverage protecting the insured against loss or damage to real or personal property from a variety of perils including, but not limited to, fire, lightening, business interruption, loss of rents, glass breakage, tornado, windstorm, hail, water damage, explosion, riot, civil commotion, rain, or damage from aircraft or vehicles.

Rate: Value of insured losses expressed as a cost per unit of insurance.

Replacement cost coverage: The cost of replacing property without a reduction for depreciation due to normal wear and tear.

Replacement cost on contents: This additional coverage pays for your losses on the basis of how much it would cost to replace or repair the item at current costs without depreciation. If the item is not replaced or repaired, only the actual cash value is payable.

Risk: Uncertainty concerning the possibility of loss by a peril for which insurance is pursued.

Second mortgage: A mortgage, the lien of which is subordinate to another mortgage.

Title: The evidence or right a person has to the ownership and possession of land.

Title insurance: Coverage guarantees the validity of a title to real and personal property. Buyers of real and personal property and mortgage lenders rely upon the coverage to protect them against losses from undiscovered defects in existence when the policy is issued.

Title insurance agent: A person who meets specific education and character requirements, licensed by the state, and appointed by a title insurance underwriter to sign title insurance policies.

Title insurance agency: A corporation, attorney, or other entity authorized by a title insurance underwriter to issue title insurance policies for the underwriter; a title agency must employ at least one title insurance agent.

Title insurer: A title insurance company licensed by OCI to underwrite title insurance policies.

Title insurance commitment or binder: Prior to closing, a document in the same form as shown in the commitment to insure obligates a title insurance policy is issued once certain requirements are met.

Title insurance policy (two basic types)**:**

Owner's policy: issued after the closing of the real estate transaction is completed, insures marketable title in the buyer/owner subject only to the exceptions contained in the policy.

Lender's policy: issued after the closing of the real estate mortgage is completed, insures there are no lien rights which come ahead of the lender's mortgage.

Title search: An examination of public records and court decisions to disclose the current facts regarding ownership of real estate.

Trust account: The bank account to which the buyer's funds are deposited and held until the time closing is completed.

Veterans Affairs (VA) Loan: A loan guaranty program established as part of the original GI bill guaranteeing home loans for veterans.