Fidelity National Title

Why Lenders Require Title Insurance When Refinancing Your Home

Lower interest rates have motivated you to refinance your home loan. The lower rate may save you a tremendous amount of money over the life of the loan, but you should also expect to pay the lender the typical closing costs associated with any new loan, including service fees, points, title insurance protection and other expenses.

WHY DO I NEED TO PURCHASE A NEW TITLE INSURANCE POLICY ON A REFINANCED LOAN?

To the lender, a refinance loan is no different than any other home loan. So, your lender will want to insure that its new loan is protected by title insurance, just as the original lender required. Therefore, when you refinance, you are buying a title policy to protect your lender.

WHY DOES A LENDER NEED TITLE INSURANCE?

Most lenders generate loans and then immediately sell those loans to secondary market investors, such as FannieMae.

FannieMae, in order to protect its security interest in the loan, requires title insurance coverage. Even those lenders who keep original loans in their portfolio are wise to get a lender's policy to protect its investment against title related defects.

WHEN I PURCHASED MY HOME, DIDN'T I ALSO BUY A LENDER'S POLICY?

Perhaps. Who pays for the lender's policy on a purchase loan varies regionally and by the terms of individual contracts. However, even if you did buy a lender's policy when you purchased your home, the lender's policy remains in force only during the life of the loan that was insured. If you refinance, the old loan is paid off (the "life" of the loan expires) and a new loan is issued for with the lender will require a new title insurance policy.

WHAT ABOUT MY ORIGINAL TITLE INSURANCE POLICY?

When you bought your home, you purchased a homeowner's title policy. The homeowner's policy stays in force as long as you or your heirs own the home. When you refinance, your lender will often require that you purchase a new lender's policy to protect its new security interest in the property. Thus, you are buying a policy to protect your lender, not a new homeowner's policy.

WHAT COULD POSSIBLY HAVE HAPPENED SINCE I PURCHASED MY HOME WHICH WARRANTS A NEW LENDER'S POLICY?

Since the time that the original loan was made, you may have taken out a second trust deed on the house or had mechanic's liens, child support liens or legal judgments recorded against you – events that could result in serious financial losses to an unprotected lender. Regardless if it has been only 6 months or less since you purchased or refinanced your home, a myriad of title defects could have occurred. While you may not have any title defects, many homeowners do. The only way for a lender to adequately protect itself is to get a new lender's policy each time you purchase or refinance your home.