



For the *New Investor*

A Crash Course in Title Searches

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As a real estate investor and mortgage broker, I know the importance of performing a thorough title search as part of your investment process. Many first-time investors are unaware of the importance of this research on an investment property.


Title searches, even if you could option not to, are good idea. They are performed through your closing agent and/or title company. Here are some tips on managing the process and some pointers on what actually happens: the more you know, the better the investment decisions you make!




The person performing the title search will look for red flags, such as any confusion surrounding the transfer of deeds or the release of liens. Problems usually are fixable, but it's much better for you as the investor to know about the problem first and then decide whether you wish to pursue the purchase.




You, the purchaser, will not be able to do anything about these red flags, if they appear. Instead, whoever is doing the title search, such as your title company or a closing agent, will handle the problem.




Many closing agents are lawyers. I suggest employing a lawyer-closing agent, if possible, in your jurisdiction. If there are any red flags or other problems in the closing process, a lawyer is likely to be more savvy in resolving issues than a person with no legal training. Issues could emerge before, during or after the closing process and you will be better protected if you have a licensed lawyer already working with you. For example, during a title search, an existing lien on a property may not be apparent if the lien was recorded improperly. Having a lawyer-closing agent on your team will help to resolve the situation quickly as he/she will know circumstances of the transaction and your rights as the buyer/owner.




You definitely want to use a lawyer-closing agent if the sale or purchase of the property is the result of a divorce, bankruptcy, or situation involving serious debt. If you're simply refinancing a residence in the absence of these situations, a closing agent who is not a lawyer will suffice.



Don't assume that you will handle only a first mortgage on the property. You must check if that is true or not. Without a title search, you could find yourself dealing with both a first and a second mortgage on the property, which could escalate the cost of the purchase. For example, say you are buying a property for \$100,000 in a foreclosure, but there is a second mortgage outstanding for another \$50,000. The property may be a great deal at \$100,000, but it is overpriced at \$150,000, which would be the total amount with both mortgages. Whoever performs your title search should inquire about liens and other mortgages to discover with certainty who holds them and if they are current.



You should buy title insurance to protect your investment in the event of problems with the title down the road. Most insurance policies, such as your car insurance, protect you in the event of future problems. Title insurance is the opposite: think of it as protecting you "into the past," not "into the future." Here's how title insurance works: if a title researcher goes backward in time examining the transfer of deeds and liens on the property, you are insured against any flaws and resulting liabilities if the title to the property was not actually free and clear. Sometimes investors are tempted not to buy owner's title insurance, but that's not a good idea.



As a mortgage broker, I am experienced in reviewing settlement statements for closings. My clients often have questions and concerns about the fees for title insurance in particular, because it is one of the highest. I review all closing fees carefully and question any that appear to be inflated. As a conscientious loan officer, my goal is to ensure that my clients pay only reasonable amounts for closing fees. If needed, I will call other closing agents to compare fees and costs. If someone is overcharging, an experienced mortgage broker can usually spot it, call it, and negotiate something more reasonable.

As a real-estate investor and mortgage broker, I know a clear title search brings security to your transaction. Owner's title insurance, while it may seem like an unnecessary expense, can't be avoided if you want to take the most risk-free approach to real-estate investing.



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