Buying a Home and Your Insurance Needs

This booklet includes information on:

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

State of Wisconsin
Office of the Commissioner of Insurance
P.O. Box 7873
Madison, WI 53707-7873

OCI's World Wide Web Home Page:
http://oci.wi.gov

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1-800-236-8517 (Statewide)

Mailing Address
Office of the Commissioner of Insurance
P.O. Box 7873
Madison, WI 53707-7873

Electronic Mail
complaints@oci.state.wi.us
Please indicate your name, phone number, and e-mail address.

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For your convenience, a copy of OCI's complaint form is available at the back of this booklet. A copy of OCI's complaint form is also available on OCI's Web site. You can print it, complete it, and return it to the above mailing address.

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There are few things in life more important than buying and protecting your home. Your home is much more than the purchase price. The financial investment of one's savings is important, but so are all the intangibles.

A home is also a major financial commitment. It is important to keep in mind that there are many expenses incurred with home ownership. You will need to budget for insurance premiums, utilities, maintenance and upkeep of your home, monthly loan payments, and property taxes. You should examine the seller's bills to get an idea of the monthly expenses for the home you are purchasing. You should also check the age and condition of appliances, plumbing, roof, structures, and wiring since they might need repair after you purchase.

When a lender offers a mortgage loan on a home, the property is used as collateral. Since a lender has no control over the property and limited influence on the borrower, the lender will require the borrower to purchase several types of insurance to help protect the lender's investment. This booklet discusses some of the insurance requirements and costs associated with purchasing a home.

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 is unique in that it insures from problems that occurred even before the insured took title. 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 that affect title that can 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 that are covered by the policy, regardless of validity of the claim. 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 usually is 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 concerned. This may even be after the insured has sold 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 in real estate, just as they may require fire insurance and 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 that you buy title insurance to protect its collateral, the title of your real estate, in case of foreclosure. This is to make sure that whoever sells you the property has a legal right to do so. If only the lender gets a title policy, you will not have any title insurance coverage.

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.

Cost of Title Insurance

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

The amount and type of coverage provided determine title insurance premiums. Unlike other insurance premiums, however, the title insurance premium is paid only once, as the policy is effective for so long as 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 that somebody 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 that fall 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 are found in the policy cover on the Exclusions page.

Alternatives to Title Insurance

You may be given alternatives to the traditional title insurance coverage. For example, in rural areas many transactions are done with an abstract of title with an attorney's opinion. Some of these alternatives will not be insurance and 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.

Buying Title Insurance

Title insurance is sold both by title insurers directly, and 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, and is totally different from title insurance. Title insurance eliminates risks and prevents losses in advance by extensively searching records and examining titles to property for defects arising out of events that have happened in the past.

Title insurance companies and agents are licensed by the Office of the Commissioner of Insurance (OCI). Title insurance is sold directly by the insurance company through a title insurance agent. A title agency is authorized by a title insurance company to issue title insurance policies for that company. In all states, agents and insurance companies must be licensed to sell insurance. To find out the name of the insurance company that underwrites the 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. To find out if an agent or company is licensed in the state you may call toll-free 1-800-236-8517. Licensing information about agents and companies can also be found on OCI's home page in the Quick Links section under Agent/Agency Lookup https://ociaccess.oci.wi.gov/ProducerInfo/PrdInfo.oci and Company Lookup https://ociaccess.oci.wi.gov/CmpInfo/CmpInfo.oci.

Note: A title policy does not guarantee (1) you can sell your property, (2) you will not lose money if you sell it, or (3) you can borrow money on it. Your title policy covers only actual losses up to the policy amount in force at the time of a claim. The policy amount is the sales price of the property on an owner's policy and the principal amount of the loan on a mortgage policy. It does not cover increases in value. Ask your title insurance agent for more information on how to cover increases in value.

Homeowner's Insurance

Homeowner's insurance is a package policy that provides property insurance to protect your home and personal belongings and liability insurance to protect you and your family members if you are responsible for injury or property damage to someone else. Most lenders will ask that you carry enough homeowner's insurance to cover the amount of the 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, fire, flood, etc., and if you did not have enough homeowner's insurance, the lender's investment may be the only one covered.

Generally, the lender will require you to have a homeowner's insurance policy in force at the time of closing. The lender will usually request a copy of the policy and the 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 that protects its interest and you may have to pay for this coverage. This type of coverage is more expensive than an insurance policy that you can purchase.

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 wear and tear.

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.

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 cost 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 the real estate term that describes 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. Even if you have this, you should check periodically to see that your home is insured to its full value.

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 (for such items as furniture, television sets, and appliances) is usually on an actual cash value basis. For example, a chair that costs $500 to replace may have a reasonable "life" of 20 years. If it is destroyed after 10 years, its actual cash value will be much less than $500, because of depreciation.

Most policies pay for losses to your contents on an actual cash value basis, but a better option is the 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.

The Wisconsin Insurance Plan

If you try several insurers and cannot find coverage, you 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 property owners who have difficulty securing insurance from usual market sources.

WIP provides basic insurance coverage for the properties it insures that includes 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 existence of WIP. Any licensed agent can 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
700 W. Michigan St., Ste. 350
Milwaukee, WI 53202
(414) 291-5353 Phone
(414) 291-5365 Fax
http://www.wisinsplan.com

The OCI publishes a brochure that explains 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, the Wisconsin Insurance Plan, and contains premium tables for four hypothetical examples. To obtain a copy of the *Consumer's Guide to Homeowner's Insurance*, call the OCI at 1-800-236-8517. A copy of the brochure is also available on-line on OCI's Web site at http://oci.wi.gov/pub_list/pi-015.htm.

A Spanish version of the publication *Consumer's Guide to Homeowner's Insurance* is available in pdf format at http://oci.wi.gov/spanish/sp_pub_list/pi-115.pdf.

Flood Insurance

Homeowner's insurance does not cover most flood damage. In order to obtain flood coverage, you need to purchase it from The National Flood Insurance Program (NFIP). The 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.

The 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 the NFIP is based on an agreement between local communities and the federal government which states that 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 losses which do occur.

The NFIP is administered by the Federal Insurance Administration (FIA), a component of the Federal Emergency Management Agency (FEMA), and an independent agency. FIA 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 that 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 a 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 that this 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 that they have 45 days to purchase flood insurance. After 45 days, lenders have the statutory authority to forceplace (obtain a policy) for flood insurance.

If a borrower believes the flood zone determination was in error, the borrower 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. 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 call the:

National Flood Insurance Program (NFIP)
Regional Office
Bureau & Statistical Agent
1111 E. Warrenville Rd. Ste. 209
Naperville, IL 60563
(630) 577-1407 Phone
(630) 577-1437 Fax
1-888-379-9531
http://www.floodsmart.gov

The OCI publishes a booklet that includes information on what to do after a loss, how to settle an insurance claim, flood insurance and tips on what to do before a loss. To request a copy of *Settling Property Insurance Claims*, contact the OCI at 800-236-8517. A copy is also available on-line on OCI's Web site at http://oci.wi.gov/pub_list/pi-084.htm.

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 that helps 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 that the property in question can be sold without loss in the event that the borrower defaults on loan payments. If a borrower applies a down payment of 20%, the lender only has to lend 80% of the property's value. So 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 that cost on to the borrower. The buyer has some influence over the choice of insurer but ultimately the lender must be satisfied that 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 on 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.

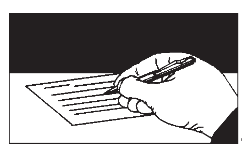
Federal Housing Administration and Veterans Administration Mortgages

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.

FHA programs enable lenders to arrange financing for the borrower with a minimal down payment. Similarly, VA programs (available to veterans only) can be made to a borrower who has little 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 unpleaseant surprises, while mortgage insurance allows a buyer to get into a home with a minimal down payment.

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.

Life Insurance

A life insurance policy will pay off the mortgage loan in event of death. Not all life insurance policies are the same. Some give coverage for your lifetime and others cover you for a specific number of years. Some build up cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. 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 for one or more years. It pays a death benefit only if you die in that 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 that is not used for the cost of insurance is invested by the company and builds up a cash value that 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 amount you owe will be subtracted from the benefits when you die, or from the cash value if you stop paying premiums and take out the remaining cash value.

You can use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You also can use the cash value to increase your income in retirement or to help pay for needs such as a child's tuition without canceling the policy. However, to build up this cash value, you must pay higher premiums in the earlier years of the policy.

Cash value life insurance may be one of several types: whole life, universal life, and variable life are all types of cash value insurance. For more information on life insurance contact the OCI and ask for the *NAIC Life Insurance Buyer's Guide*.

Disability Income Insurance

Anyone who works probably should consider disability income insurance to help replace income lost because of a long-term injury or illness. It is best to buy this through a group. If group coverage is not available, it is sometimes possible to find good individual coverage. It is much more likely that you will become disabled rather than die as a result of an accident or illness. Therefore, adequate disability income coverage is important. Some points to check are:

- What is the definition of disability? Does it cover both injury and sickness? Is it partial or total disability? Is it defined as inability to perform your current occupation or as inability to perform any occupation of which you are capable?
- 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?

Insurance Marketing

When you begin to contact insurers, there a few things you should know about how insurance companies work.

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 agent sells solely for one insurance company or group of related companies if the insurance company or group writes that type of insurance. 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 that 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 that your agent agrees to review your coverage from time to time, advises you about other financial services, and assists you when problems develop.

Many people 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 that a particular agent understands your needs and will give you the service you want, seek another agent.

Agents and insurers differ. Friends may have some recommendations. If not, try the yellow pages. Agents and insurers are listed alphabetically and by location. If you travel frequently, you may want to check with your insurer 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. To find out if an agent or company is licensed in the state you may call toll-free 1-800-236-8517. Licensing information about agents and companies can also be found on OCI's home page in the Quick Links section under Agent/Agency Lookup https://ociaccess.oci.wi.gov/ProducerInfo/PrdInfo.oci and Company Lookup https://ociaccess.oci.wi.gov/CmpInfo/CmpInfo.oci.

Consumer Buying Tips

Finding adequate insurance coverage at a price you can afford is important. 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.

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

√ **Shop for Discounts.** Insurers give discounts for auto and homeowner's insurance.

√ **Do not Pay Cash.** Always give an agent or insurance company a check or money order. 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 that 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 that are 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 that sounds too good to be true probably is too good to be true. Then again, 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 you 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 should first check with your agent or with the company that sold you the policy. If you do not get satisfactory answers from the agent or company, contact the OCI. A complaint form is included in the back of this booklet. Make sure you have included detailed information about your insurance problem. The more complete and accurate this information is, the more likely it is that your problem can be resolved. Be sure that you have included the correct name of the insurance company from which you bought the policy. Many companies have very similar names. Listing the wrong name may delay the investigation of your complaint.

Details about how to file an insurance complaint and an on-line complaint form are also available on OCI's Web site at: http://oci.wi.gov/com_form.htm.

The OCI consumer complaint form is also available in Spanish. You can obtain a copy by calling 1-800-236-8517. A copy is also available on OCI's Web site at http://oci.wi.gov/spanish/com_form_sp.htm.

The 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.

The OCI publishes complaint summaries each year listing those companies that have received the most complaints. This is one way consumers have of judging the service given by insurance companies. For more information, call the OCI at (608) 266-0103 or 1-800-236-8517 and request a copy of *Insurance Complaints and Administrative Actions*. A copy is also available on OCI's Web site at http://oci.wi.gov/pub_list/pi-030.htm.

Glossary of Terms

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

Appraisal: A review of a property claim to determine the value of a particular item, or the value of the loss to damaged property.

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

Claim: A request for reimbursement for a loss covered by the policy. For example, a claim for items stolen from the policyholder's home.

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 that 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 that includes information such as the name and address of the insured, the property insured, its location, the dates the policy is effective, the amount of insurance coverage, the deductible, and other related policy information.

Deductible: The amount the policyholder must pay per claim or accident. Deductibles are fixed amounts specified in the policy.

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 obsolesces.

Endorsement: An amendment made to the policy that is used to add or delete coverage.

Escrow: A procedure whereby a disinterested third party handles legal documents and funds on behalf of a seller and buyer. Money or other obligations kept by the mortgage company to ensure that 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 that are not covered.

Face amount: The amount stated on the insurance policy that will be 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 that increase the availability and affordability of housing for low-, moderate-, and middle-income home buyers.

Federal Housing Administration (FHA): An agency of the federal government that insures 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 that mortgage lenders, such as commercial banks, mortgage bankers, savings institutions and credit unions, can make available to home buyers and multifamily investors.

Independent agent: An agent who represents more than one insurer.

Insurance: A formal device for reducing the chance of loss by transferring the risks of several individual entities to insurance companies.

Insured: The party covered by an insurance arrangement, to which an insurer agrees to indemnify for losses, provide benefits, or render services.

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 expressed as a percentage.

Market value: A real estate term that describes what the current value of your home would be if you were to sell it—including the price of the land. This amount is generally not involved in determining what amounts to purchase under a homeowner's policy.

Personal property: All tangible property not classified as real property.

Policy: A written contract for insurance between the insurance company and the policyholder.

Premium: The amount of money an insurance company charges, based on a given rate, to provide the coverage described in the policy, or simply stated, the price of insurance protection for a specified risk for a specified period of time, typically one year.

Property coverage: Insurance providing protection against the loss or damage to real and personal property caused by specified perils covered in the insurance policy or contract.

Rate: The cost of a unit of insurance as determined by insurance companies and state regulators. The rate serves as the basis for the premium.

Replacement cost coverage: Replacement cost is what it would cost to completely replace your house or any part of it.

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: This word has two meanings for insurers:
(1) the chance of loss such as from a peril; and
(2) the person or entity that is insured by a policy.

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

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

Title insurance: A contract to make good any loss or damage to the insured by reason of defects, liens, or other encumbrances on the insured's title that are not specifically excepted from or excluded by the policy.

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 the 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 that obligates that a title insurance policy be issued once certain requirements are met.

Title insurance policy (there are 2 basic types)**:**

Owners policy: issued after the closing of the real estate transaction is completed which 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 which insures that there are no lien rights that 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): A loan guaranty program established as part of the original GI bill that guarantees home loans for veterans.