

# Insurer Bound by Policyholder's Settlement of Questionable Liability Case

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In [Home Federal Savings Bank v. Ticor Title Insurance Company](#), No. 1:10-cv-0999 (Sept. 6, 2012), the **Seventh Circuit** held that the policyholder mortgage company was entitled to be reimbursed for settling a potentially covered mechanics lien action, even when it had a meritorious defense. The court emphasized that the choice to settle rather than risk paying for litigation and possibly losing priority of its security interest was the prerogative of the insured, when faced with abandonment by its insurer. The insured specifically purchased coverage for subsequently filed mechanics liens to cover the risk of litigation costs of defense. “As we see the case, Home Federal was seeking only the peace of mind it had paid for, not a windfall.”

The court affirmed the longstanding Indiana rule that when an insured elects to settle a third party claim after the insurer has wrongfully denied, the settlement is binding on the insurer so long as the claim was within the policy's coverage and the settlement was reasonable and made in good faith. Therefore, the Seventh Circuit reversed the ruling of the district court, finding that the court should have granted the insured's motion for summary judgment and denied the insurer's motion.

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