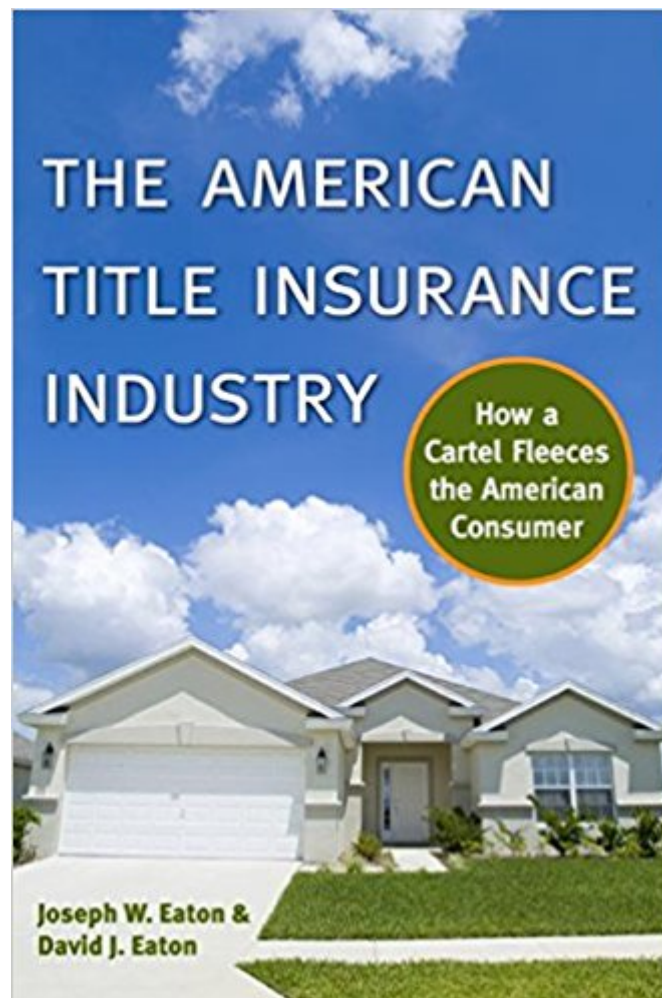




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The American Title Insurance Industry: How A Cartel Fleeces The American Consumer



Synopsis

After World War II, banks and other mortgage lenders began requiring insurance to protect them against flawed or defective real estate titles. Over the past sixty years, the title insurance industry has grown steadily in size, power, and secrecy: policies are available for both lenders and property owners and many title insurers offer an array of other real estate services, such as escrow and appraisal. Yet details about the industry's operational procedures remain closely guarded from public exposure. In *The American Title Insurance Industry*, Joseph and David Eaton present evidence that improvements in recordkeeping over the last sixty years—particularly the advent of computers—have reduced the likelihood of a defective title going unnoticed in a property transaction. But the industry's flaws run deeper than mere obsolescence: in most states, title insurers are allowed to engage in anticompetitive business practices, including price-fixing. Among the findings in this meticulously researched study are instances of insurers charging premiums well above the amount necessary to compensate them for assuming the risk of defect and identical policies with identical risk that vary in price by hundreds of percentage points for different geographic locations. The authors also examine the widely ignored role that the federal and most state governments play in perpetuating the title insurance industry's unfair practices. Whereas most private industries prefer as little government intervention as possible, title insurers welcome it. Federal statute exempts title insurers from anti-trust liability, opening the door for price-fixing and destroying any semblance of free-market competition or market power for consumers. A landmark study for elected officials, and all those involved in the insurance, real estate, and brokerage industries, *The American Title Insurance Industry* brings to light a long-neglected problem and offers suggestions for how it might be remedied.

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â œ[A] work that provides newly detailed history and analysis of title insurance, a little-studied industry.â •Library Journal

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good introduction to the subject

This is an excellent book informing the American consumer how he is being fleeced by the title insurance industry. In many states thousands of dollars are charged for a title policy when a home is purchased. As the author peels off some of the mystery behind the title process, it becomes apparent that the consumers combined ignorance and lack of will to demand a change has resulted in a very unfortunate situation where we are being bilked to the tune of billions of dollars. Unfortunately in many states even the local govt is in on the act. This book is a tremendous education for any homeowner on the ins and outs of title insurance. A reader can only conclude that this element of the home ownership process is just plain unethical. The author provides numerous examples of how the consumer is being bilked. Here are some examples: 1. The overall liability for a title insurance company as a % of premiums collected is in the low single digits. Compared to any other reasonable insurance business where the liability is much much higher. So where are the billions of profit dollars going? 2. Why does an individual who owns a home have to again pay the title charges each time he refinances the mortgage??? 3. Why is the homeowner paying the fees to purchase the title for the mortgage company as well as for self?? 4. Why is there a clause in the title papers which dramatically minimizes the actual liability that the title insurance company has in the case where there is an actual problem?? 5. Why does the title industry refuse to provide statistical data on their revenues/ liabilities/ costs...etc, yet any mainstream insurance industry is mandated by the law to do so? 6. Why are the costs still the same if not higher even though much of the title process is now automated and the title agent with the press of a key can complete the research process in a matter of a few minutes instead of hours? 7. Why are the costs of a title so high when

much of the automation work was done by offshore workers?? 8. Why is the cost of a title for a brand new subdivision house the same as it is for a house that has changed hand 10 times? The author is absolutely right to call the title insurance industry a cartel. Even many states talk big about how they stand behind their citizens and yet are spineless enough to work in collusion with the title industry to maintain high prices. An example is Texas, where the title fee is fixed to around \$2600 by the state (before all the other add on charges). Iowa stands out as a model of how private and state entities can successfully compete in the market with regard to title policies. They know how to take care of their people. Also, they are a beacon of light informing us clearly that there is something very wrong with the title process. A title for a house up to \$500,000 costs about \$100 when taken from the Iowa State Title company and yet the state is still making a profit! And surprise.....the private title insurance companies also compete in the state and charge similar amounts for a title. Now, do you seriously think a private title company would compete in a market where they were losing money? (Just look at Obama Care to validate your answer). Now just think how ridiculously high the profit margins are for a title company. The media will hound every business owner who dares to charge high prices during a hurricane. Even the govt will go after such businesses. Yet in this situation the media is silent, the govt is in collusion with the title industry, and the average American pays the price by being forced to cough up thousands of extra dollars in the process of buying a home. We really need to eliminate this very unAmerican process and bring the costs of a title policy to a reasonable amount. But it will only happen if the consumers raise their voice. This is a very well researched book by an author who in the process has done justice for the American people. He has armed us with the facts, now we need to do something about it.

1. I am positive there are abuses taking place in the industry 2. State regulation and pricing are WIDELY varied. Having purchased homes in Indiana, title insurance was cheap, efficient and valued. The same cannot be said in Texas. The cost is ABSOLUTELY BURDENSOME. 3. Reform and greater oversight are absolutely required. Having worked outside the US in real estate, the author must address the comparative costs of home acquisition in the US compared to other countries. Though a consumer is charged for title insurance benefiting both the lender and purchaser at the time of closing; the long term cost of money in the form of interest rate is lower as a result of credit enhancements, such as title insurance, widely available in the United States that allow money to be available at a lower cost to consumer. Lenders that cannot access credit enhancements at a low cost to the consumer, price the title risk into their loans. So, as an example, instead of a loan being available at 6% for 15 years; lenders will add a quarter point to the loan for

title risk and make the funds available at 6.25% for 15 years. To have a truly meaningful review of the title insurance industry, there must be a discussion of the long-term cost of additional interest consumers avoid by paying a one-time premium. Maybe one of the key reforms that should be undertaken is to significantly reduce the cost of title premium paid at the time of a refinance. This is one of the most objectionable practices I see daily in the title industry. The author mistakenly argues that title agents retain too much of the title premium when issuing a title policy, especially when compared to property and casualty insurers. Such a sweeping statement cannot be maintained when comparing states and the wide disparity between percentages retained by agent and amounts remitted to underwriters. There are many states in which the agent ultimately takes the risk of writing the policy and justifies the agent keeping more of the premium. If an agent makes a mistake in searching the property that causes a loss, by contract the underwriter will settle the loss with the insured. However, if the agent's negligence is the cause of the loss, the agent will have to pay the underwriter back for actual loss and expenses associated with the claim pursuant to their agency contract. This fact alone makes meaningful comparison to property and casualty insurers impossible. To quote loss figures of \$.47/\$10.00 as evidence of overcharging laughable and misguided. I am confident that figure is close to accurate for underwriters, but is net of the underwriter's salvage from agents and those individuals who actually are responsible for paying the loss. To accurately gauge the claim ratio, the author must look to the amounts paid by agents as loss to gain a clearer picture of how much goes out in the form of loss and loss adjustment expenses paid by the industry to claimants. Again the author shows why his lack of any meaningful experience in the industry is a glaring weakness in his book. Texas, cannot be used so widely to condemn the industry in the other 49 states. There are many other instances to point out the author's lack of understanding of the function title agent's play...but that is the topic for another book.

Don't be fooled by the negative reviews from industry insiders! This book provides meaningful discussion for a corporate scandal that needs to be exposed for what it is. I am a practicing real estate broker in Texas, and yes, Texas will be a very important test case for reforms that need to take place within the industry. It's no surprise that the title insurance industry would use the open door for lobbyists in Austin to its collective benefit. Texans are paying through the nose for an insurance product that is rarely, if ever needed. The Real Estate Center's own data show that premiums collected in 2007 were over \$1.6 billion, while losses paid accounted for only 3.3%, or roughly \$55 million of that sum. The question Texans should be asking is, What happened to the other \$1.5 billion that we paid? The title insurance industry is just another example of corporate

greed in America, and it's time for voters to demand reform. Let the title companies open their books (all of them) and have them explain the administrative and marketing expenses and how these expenses benefit consumers. There is no reason I should have to pay \$1400 for a refinance title policy when Iowa can do the same thing for \$90. What we have in Texas is promulgated price gouging. Our state legislators and insurance commissioner are simply turning a blind eye. The paltry rate reductions we have received over the past decade will pale in comparison to the cost savings that can be achieved if voters will take a stand and demand transparency in the title insurance industry. Spread the word!

Aaron Layman
Aaron Layman's Katy Texas Real Estate Forum

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