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We were very dismayed by your July 2006 editorial, “Clear Title to Profits,” where you make a number of inaccurate and/or misleading statements that don’t tell the entire story.

First, as far as homebuyers being *required* to purchase two title insurance policies, this is not accurate. If the homebuyer is taking out a mortgage loan, the lender will require a Loan Policy to ensure that the title to the property they are financing is clear from any defects and that their lien will be the first priority. The Owner’s Policy is not required in most states, and it is up to the homebuyer to decide if they want this added protection. For a one-time premium, the Owner’s Policy protects the homeowner for as long as they or their heirs have an interest in the property.

You stated that title insurance is “vastly overpriced.” On a cost-per-thousand dollars of liability, title insurance rates have actually decreased over the last 40 years. Rates charged for title insurance are regulated by state governments, who must ensure that premiums are not excessive or *inadequate*. The pre-tax profit margin of most title insurers over the last 25 years was roughly 1.3 percent. Any downward pressure on rates could threaten the solvency of insurers, to the detriment of policyholders.

You also compared the low claims paid by title insurers, 6.4 percent of premiums, with auto and homeowners insurers, who pay 80 percent. Claims are only part of the equation, because you also have to look at expenses. Unlike other lines of insurance, the majority of expenses for title insurers are incurred *prior* to the policy being issued. According to a 2005 AM Best Study, expenses for title insurers represent approximately 90 percent of the premium dollar, whereas with property/casualty insurers, it is only about 25 percent. So when you combine claims *and* expenses, both lines of insurance only retain about 5 percent of the premiums that are collected.

You then went on to state that most of the “inflated” premium is paid to title agents as commission. The term “commission” used in the title insurance industry refers to compensation paid to title agents by title insurance companies *for services rendered*. These services include performing the title search, examination of title, necessary title repair work, issuing the title insurance policy and, oftentimes, conducting the settlement or closing. The title agent also collects the premium, and passes the appropriate risk portion along to the title insurer.

In your statement that title agents “provide considerations” to real estate professionals who refer consumers to the title company, you imply that this is routine when, in fact, it is only a fraction of title agents in the industry who are breaking the law. Those who

engage in this activity are in violation of RESPA, which is not condoned by our association or the vast majority of title agents in this country who comply with the law.

Finally, you suggest doing away with private title insurance in favor of government-run title insurance, as is the case in the state of Iowa. The fact that no the other state in the country has adopted this system clearly demonstrates that they do not believe this system works.

In Iowa, approximately 85 percent of home buyers, and 70 percent of lenders, purchase traditional title insurance from out-of-state insurers because the coverage is more comprehensive. If you purchase property in Iowa, a title search is performed by an abstractor, who charges a fee. The abstractor's findings are then reviewed by an attorney, who also charges a fee. The Iowa Title Guarantee Division (TGD) then issues a certificate of title insurance. So the total cost must take into account all of these components. Additionally, only half of the losses that occur in Iowa are covered in comparison to what is covered by traditional title insurance issued in other states. As a result, approximately \$1.6 million in losses was absorbed by Iowa homeowners, attorneys, lenders and borrowers in 2002, and \$2.4 million in 2003.

We were not contacted or given the opportunity to speak with you prior to your editorial. We welcome the opportunity to do so, and believe that your readers deserve to be presented with the entire picture so that they can draw their own conclusions instead of being steered by your obviously biased views.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. R. Maher', with a stylized flourish at the end.

James R. Maher
Executive Vice President
American Land Title Association