Unnecessary Closing Costs

Contributed by Richard Caudle

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Unnecessary Closing CostsBy Kenneth R. Harney

Saturday, April 28, 2007; F01Title insurance typically is a large, mandatory cost for home purchasers and mortgage refinancers -- often in the $1,000 to $2,000 range. But is the price too high for what you actually get?Equally important: Do widespread referral relationships among real estate brokers, title agents and mortgage companies restrict price competition, create anti-consumer conflicts of interest, and discourage buyers from shopping for lower-cost title-insurance and closing-service options?The Government Accountability Office examined the title industry in depth and came up with some unsettling findings in a new report:· "Multiple characteristics of current title insurance markets, as well as allegedly illegal activities by a number of those involved in the marketing of title insurance, suggest that normal competitive forces may not be working properly, raising questions about the prices consumers are paying." · Unlike most other forms of insurance, where claims paid by the insurer often amount to 70 percent or more of the premium dollars collected, in title insurance, the claims amount to just 5 percent of premiums. The five national title insurance companies, which dominate the field with 92 percent of the business, pocket only 10 to 20 percent of the premium dollars paid by home buyers and refinancers at closing. Where does the rest go? Local title agents receive up to 90 percent of your premiums, according to the GAO. · Although in many states premiums are set to reflect the work that title agents perform to check public records and remove any "clouds" on the title chain, agents also add charges for title search, analysis of the abstract and a variety of "administrative" fees. In some areas, according to the GAO report, the extras can be "as large as the title insurance premium itself." · "Affiliated business" arrangements, formerly known as "controlled business" deals, are proliferating rapidly and may inhibit consumer choice by locking out lower-cost competitors and by providing real estate brokers with incentives to steer customers to title companies in which they have major financial stakes. · State and federal regulators are finding that many affiliated business arrangements set up to share title-insurance revenue are shams. They exist to funnel consumer dollars back to real estate brokers and mortgage companies, rather than to perform actual title insurance work. During the past three years alone, the GAO said, "over $100 million in fines, penalties or settlement agreements" have resulted from state and federal investigations of title-insurance shams and illegal referral fees. These arrangements, which essentially treat consumers' premium charges as slush funds to be redistributed among referral partners, suggest that pricing to consumers may be excessive. · A key reason for problems in the title industry is that state government agencies that set or approve premium levels often do not examine true costs in depth. "[F]ew regulators review the costs that title agents incur to determine whether they are in line with the prices charged," the report says. "In fact, in the majority of states, agents' costs for search and examination services are not considered part of the premium and, thus, receive no review by regulators." The GAO acknowledged that title insurance is an important service and "can provide real benefits to consumers and lenders by protecting them from undiscovered claims against property that they are buying or selling." But most home buyers are "vulnerable" when they are required to purchase coverage: They don't know where to shop for the lowest-priced deal, and typically they take the advice of their real estate agent or mortgage loan officer.The American Land Title Association, which represents insurers and agents nationwide, said it welcomed the GAO's study of the industry but disagreed with the findings on price competition and affiliated businesses.In an interview, Ed Miller, chief counsel and vice president for public policy, said, "We would argue that there are a large number of agents competing pretty fiercely for business" and that they offer real choices on pricing and services for consumers who shop.Regarding affiliated business arrangements, Miller said his association strongly supports efforts by state and federal regulators to weed out illegal kickback schemes. "If they are not set up within the law," he said, "that can negatively affect competition." The $100 million in fines and settlements over the past three years suggest that the system is working and that regulators "have gone out and found the [companies] who are breaking the law."Bottom line for you: Don't roll over when it comes to title and settlement services. Be aware that you can shop for lower-cost alternatives. Find them and you could save hundreds of dollars at closing. Richard CaudlePrincipalLonghorn Mortgage8500 Shoal Creek Blvd Ste 4-103Austin, TX 78757(o)512-302-9410 (f)512-302-9450