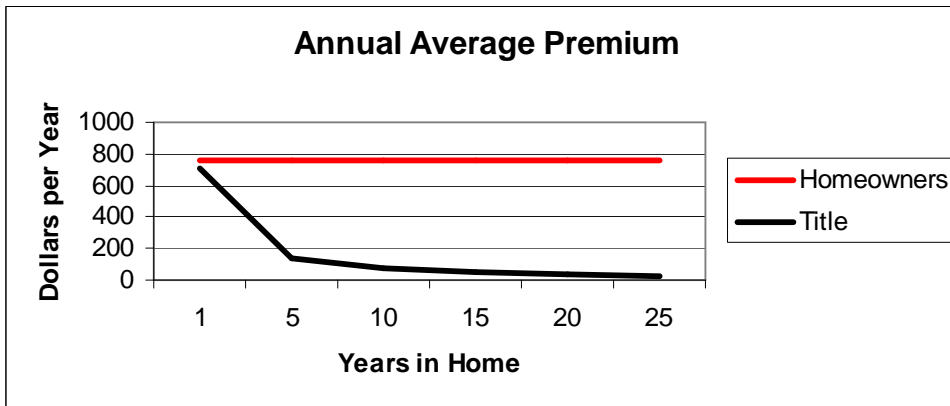


## TITLE INSURANCE – CONSUMER AND PUBLIC BENEFITS

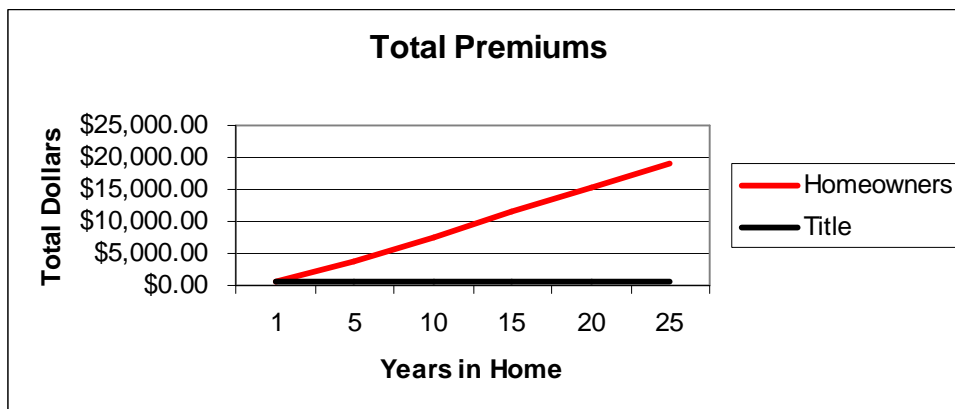
*Did you know that...*

### **Title Insurance is inexpensive.**

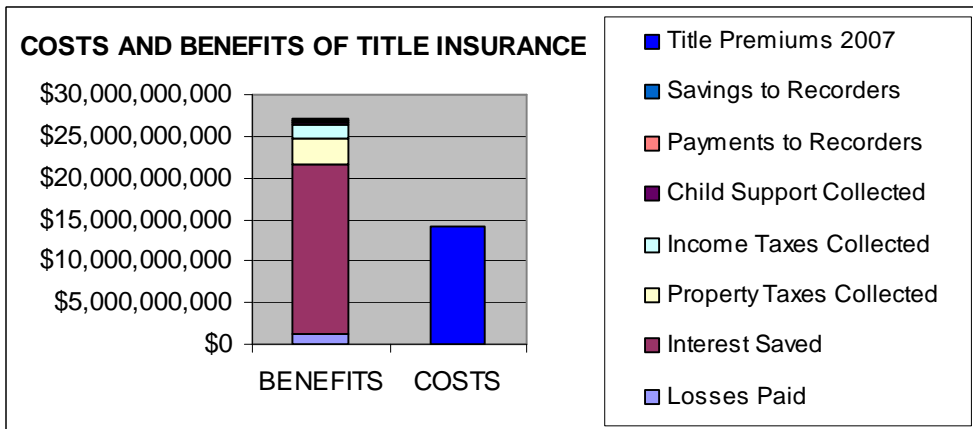
The national average cost of a title insurance policy is \$700, but homeowners only pay for a title insurance policy once. This means that the average cost per year of a title insurance policy declines rapidly as the time that a homeowner remains in a home increases. About 60% of homeowners remain in their homes for more than 5 years, and for these homeowners the annual average cost of a title insurance policy is less than \$140. About 40% of all homeowners remain in their home for more than 10 years,<sup>1</sup> and for these homeowners the average annual cost of a title insurance policy is less than \$70. About 15% of homeowners remain in their homes for more than 25 years, and for these homeowners, the annual average cost of a title insurance policy is less than \$28. The national average cost of a homeowners insurance policy is \$765 dollars per year, and the homeowner pays it every year.<sup>2</sup>



Over a 25 year period, the average homeowner will spend \$700 on title insurance and \$19,000 on homeowners insurance.



**Title Insurance provides benefits to the public which are almost twice as great as its cost.**



**Title Insurance saves home buyers and businesses \$20 billion per year in extra interest expense by making real estate sales and refinancing transactions close faster.**

A fast closing means that the buyer doesn't need a long rate lock on his or her mortgage commitment. A study<sup>3</sup> of the impact of title insurance on the length of rate lock borrowers needed on loans with and without title insurance found that borrowers trying to close transactions without using title insurance needed to obtain loans with long rate locks (45 to 60 days) much more frequently than did borrowers using title insurance (for whom 30-day rate lock is the norm). Loans with longer rate locks carry higher interest rates. A 45 day or 60 day rate lock increases the mortgage interest rate by about 15 basis points over the cost of a loan with a 30 day rate lock.<sup>4</sup> At current mortgage interest rates of 6.7%, this is a 2.2% increase in mortgage interest payments. Fifteen basis points in the loan interest rate costs the homeowner about \$4,000 over the life of a 30 year loan.

Total home mortgage debt in the U.S. in 2008 is \$10.6 trillion.<sup>5</sup> The fifteen basis point decrease in mortgage interest rates that the title insurance system saves homeowners compared to other property conveyancing and financing systems amounts to **\$15 billion** in interest payments every year. Over the life of all the 30-year mortgages outstanding now, this totals \$450 billion in savings.

And there are additional indirect savings to consumers.

Businesses also need mortgage loans, and mortgage debt of businesses in the U.S. in 2008 is \$3.6 trillion.<sup>6</sup> The fifteen basis point decrease in commercial mortgage interest rates that the title insurance system saves businesses compared to other property conveyancing and financing systems amounts to an **additional \$5.4 billion** in interest expense every year. These savings are passed along to consumers in lower prices for all goods and services.

The \$20 billion in interest savings every year produced by title insurance coverage more than offsets the \$15 billion paid for the title insurance premiums which make these savings possible.

**Title insurers are responsible for collecting \$3.3 billion in delinquent real estate taxes every year.**

Total property taxes levied in the U.S. in 2007 were \$401 billion.<sup>7</sup> On average, 7% of real estate taxes are delinquent at year-end,<sup>8</sup> so delinquent property taxes amount to some \$28 billion each year. There are about 121 million taxable parcels in the U.S.<sup>9</sup> so the average delinquent tax per parcel is about \$275. Title insurers examine around 14 million parcels every year.<sup>10</sup> By finding property tax liens during title search and arranging for their payoff before a sale or loan refinance occurs, title insurers collect about \$3 billion annually for state and local governments, or 12% of all delinquent property taxes.

**Title insurers are responsible for collecting \$2 billion in delinquent Federal income taxes every year.**

Total delinquent Federal income taxes in the U.S. in 2007 were \$109 billion.<sup>11</sup> About 4.4 million collection enforcement actions were undertaken, with an average size of \$24,672.<sup>12</sup> Of those actions, 684 thousand were lien filings. There are about 121 million real estate parcels in the U.S.<sup>13</sup> so the average tax lien amount per parcel is \$139. Title insurers examine around 14 million parcels every year.<sup>14</sup> By finding Federal income tax liens during title search and arranging for their payoff before a sale or loan refinance occurs, title insurers collect about \$2 billion for the Federal government, or 1.8% of all delinquent Federal income taxes.

The receipts to the Federal government from title insurer income tax collections are substantially higher than they would be if the government utilized private debt collectors pursuant to the American Jobs Creation Act of 2004 (AJCA, P.L. 108-357). Title insurers charge the Federal government nothing for their collection efforts. In contrast, the Act authorizes the government to pay out up to 25% of the amount collected as fees to these private debt collectors. Avoiding these fees by relying on the title insurance process saves the government almost a half-billion dollars per year.

**Title insurers pay for 17% of the expenses of recorders of deeds.**

There are about 3,300 counties in the U.S.,<sup>15</sup> which maintain records on about 121 million parcels of real property. Title insurers pay about \$170 million dollars per year to county governments to purchase copies of recorded documents.<sup>16</sup> We estimate that total expenses of operating recorders of deeds offices are about \$1 billion per year.<sup>17</sup> If not for the purchase of documents and maps by the title insurance industry, recording fees to the public for all documents would increase by 17%.

**Title insurers reduce recorder of deeds operating expenses by 22%.**

Title insurers spend \$225 million dollars per year to correct errors in the public record that would otherwise need to be identified and corrected by county recorders.<sup>18</sup> If recorders had

to locate and correct these errors themselves, recording fees to the public for all documents would increase by an additional 22%.

### **Title insurers are responsible for collecting 5% of all delinquent child support payments.**

Title insurers collect about \$325 million per year in child support payments on behalf of state welfare agencies by detecting child support liens and arranging for their satisfaction, or 5% of the total of \$7.2 billion collected in the U.S.<sup>19</sup>

*This analysis was prepared for the  
American Land Title Association  
By Dr. Nelson R. Lipshutz of  
Regulatory Research Corporation*

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<sup>1</sup> Source: U.S. Census Bureau, Survey of Income and Program Participation, 1996.

<sup>2</sup> Average U.S. title insurance premium per Bankrate.com, July 29, 2008. Average homeowners premium per 2007 National Association of Insurance Commissioners report.

<sup>3</sup> Lipshutz, Nelson R., "Economic Benefits of Permitting Title Insurance Sales In Iowa," Iowa Land Title Association, 2003

<sup>4</sup> Based on Bankrate.com data, August 6, 2008. Average for 30-year \$150,000 mortgage with 5% down for Chicago, Fort Lauderdale, Kansas City, Milwaukee, Minneapolis, New York, Salt Lake City, San Diego, San Francisco, Seattle, and St. Louis.

<sup>5</sup> Board of Governors of the Federal Reserve System, "Federal Reserve Statistical Release, Z.1, Flow of Funds Accounts of the United States" June 5, 2008 <<http://www.federalreserve.gov/releases/z1/20080605/>>.

<sup>6</sup> Ibid.

<sup>7</sup> Census of Governments, Table 1. National Totals Of State And Local Tax Revenue, By Type Of Tax

<sup>8</sup> Based on average of Florida (2007 Florida Property Valuations & Tax Data June 2008, State of Florida Department of Revenue), New York (New York City Department of Finance 2005), and California, Nevada, Oregon, and Washington (Nationwide Standard, Volume 3, Issues 4, December 28, 2007, Nationwide Real Estate Tax Service, Inc.)

<sup>9</sup> Including 112 million housing units, 7.6 million business establishments, and 2.1 million farms. U.S. Census figures.

<sup>10</sup> Based on private communications from title insurers writing 94X% of total U.S. business, scaled up by ratio of total U.S. title insurance revenue to revenue of surveyed companies.

<sup>11</sup> Census of Governments, Table 1. National Totals of State And Local Tax Revenue, By Type of Tax

<sup>12</sup> 2007 IRS Fact Book, Table 16 (Revised)

<sup>13</sup> See footnote 7

<sup>14</sup> See footnote 8

<sup>15</sup> U.S. Census data

<sup>16</sup> Based on data reported in New York for 2006 by title insurance underwriters, adjusted to include purchases by title agents based on the number of policies written, and scaled up to the entire U.S. by the ratio of the total number of U.S. real estate parcels to the number of New York real estate parcels.

<sup>17</sup> Based on reported county recorder of deeds 2007 budgets for Marin, CA; Newcastle, DE; Cook, IL; Williams, ND; Delaware, PA; and Milwaukee, WI; and 2006 budgets for Sedgwick, KS; and Randolph, NC. Scaled up to the entire U.S. by the ratio of total U.S. population to county population. [NOTE: number of parcels tracks very closely with population.]

<sup>18</sup> The average cost of processing a title order in 2006 was \$411 and about 36% of all orders required some curative work (ALTA 2006 Agents and Abstractors Survey). The extra cost of curing a defective title is about 12.2% of the cost of processing an order with a non defective title (consultation with underwriter claim counsel). Based on these numbers, the extra cost in 2008 dollars of processing a defective title is \$50. The title insurance industry processes

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about 12.5 million titles per year, of which 3.1 million have defects that need to be cured, so the cost of curing these defects is \$225 million.

<sup>19</sup> Based on private communication from the California Department of Child Support services, scaled up to the entire U.S. by the ratio of total child support collected in arrears to California child support collected in arrears (Federal Office of Child Support Enforcement data).