ECONOMIC BENEFITS OF PERMITTING TITLE INSURANCE SALES IN IOWA

Report to

The Iowa Title Insurance Coalition

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EXECUTIVE SUMMARY

The Title Insurance Coalition, a consortium of Iowa business organizations under the leadership of the Iowa Land Title Association, retained Regulatory Research Corporation to conduct a study of the economic impacts of supplementing the current Iowa title guaranty system with private title insurance sales. The primary findings of the study were:

- ***TGD owner's certificates protect fewer than 1.5% of Iowa real property purchasers.***

- ***TGD lender's certificates protect about 31% of real property loans made on Iowa property.***

- ***A substantial fraction of all Iowa mortgage loans are currently being insured out-of-state.***

- ***TGD owner's and lender's certificates provide substantially less protection than do currently available ALTA title insurance policies for homeowners.***

- ***The effective price for a title guaranty certificate with the available TGD endorsements providing some of the additional coverages offered by the current ALTA homeowner's policy or expanded coverage residential loan policy is about double the rate of $1 per $1,000 of coverage quoted by TGD.***

- ***TGD continues to use policy forms developed 35 years ago because, as a government monopoly, TGD has had no competitive incentive to develop products meeting the expanded needs of homeowners that have developed over the past 35 years as markets and consumer protection policies have evolved.***

- ***Except for policies written in 2000, TGD has paid virtually nothing on claims on title guaranty certificates issued over the period 1999-2002. Even if the unusual payment in 2000 is included, TGD has paid only 12% as much per claim reported as do Pennsylvania title insurers.***

- ***Because relatively few title guaranty certificates and title insurance policies are issued in Iowa, most property owners, borrowers and lenders rely for title protection on a title abstract and attorney's title opinion, backed up by the attorney's and abstractor's errors and omissions insurance policies. However, only half of title losses are attributable to causes that would be covered by errors and omissions insurance, so about $1.6 million in losses was absorbed by Iowa homeowners, attorneys, lenders, and borrowers in 2002, and $2.4 million in 2003.***

- ***Banks charge higher interest rates on loans with long rate locks than on loans with short rate locks. About 50% of Iowa borrowers need to obtain 45 to 60 day rate locks*** *rather than 30 day rate locks, whereas only 28% of borrowers in other states need such long rate locks. The only thing unique about Iowa closing practice is the predominant use of TGD certificates based on attorneys' opinions instead of the title insurance process. This means that almost 50,000 more Iowa borrowers required long rate locks in 2003 than would have been the case if Iowa loans could have been closed as fast as loans elsewhere in the United State where title insurance is generally used. In 2003, these loan closing delays produced by the TGD program cost Iowa borrowers over $17.5 million in higher interest costs.*

- *Iowa personal income tax collections would increase by at least $1 million per year from the reduction in interest deductions produced by augmenting the TGD guaranty system with private title insurance and thus speeding up loan closings. Iowa corporate income tax collections would increase by about $450,000 from lower interest deductions by commercial borrowers.*

- *The dollar volume of out-of-state title insurance premiums on Iowa property was at least $11.5 million in 2003. A 1% premium tax on formerly out-of-state title insurance premium volume would generate $115,000 in additional Iowa tax revenue.*

- *Employment of Iowa-based title insurance company personnel sufficient to produce title insurance now produced out-of-state would generate about $207,000 in additional Iowa personal income taxes.*

- *Permitting the sale of title insurance in Iowa and so creating new employment and consequent employee personal expenditures would generate about $306,000 in additional sales and use tax revenues.*

- *Permitting title insurance sales in Iowa would not devastate the Iowa real estate bar. Title examinations are still conducted primarily by attorneys in many regions with vibrant title insurance industries.*

- *Permitting title insurance sales in Iowa would not cut off funding for IFA's housing programs. Even if some current users of the TGD certificate switched to title insurance, Iowa tax collections would increase. These increased collections could be directed to IFA for its housing programs to offset any decrease in transfers from TGD to IFA.*

- *Permitting title insurance sales in Iowa would not subject Iowa homeowners to excessive costs. Iowa homeowners would continue to be free to utilize the TGD certificate program if it met their needs. But they would also have the opportunity to use private title insurance if it met their needs better. Providing the consumer with additional choices could only increase consumer welfare. Further, even those consumers who remained in the TGD program would realize significant interest savings as TGD modernized its processes to respond to the challenge of alternative providers and made low rate lock period loans more usable in Iowa.*

ABOUT THE AUTHOR

Dr. Nelson R. Lipshutz has been a consultant to the title insurance industry for the past 32 years. A native of Philadelphia, Pennsylvania, Dr. Lipshutz was originally educated in theoretical high energy physics, receiving a Bachelor's degree from the University of Pennsylvania and Master's and Doctoral degrees from the University of Chicago. After several years of teaching and research as an Assistant Professor of Physics at Duke University, Dr. Lipshutz joined the staff of the Management and Behavioral Science Center of the Wharton School of the University of Pennsylvania, and received an MBA in Finance from Wharton in 1972. For the next five years, Dr. Lipshutz was a member of the staff of Arthur D. Little, Inc., where he worked with the ALTA Research and Accounting Committees to develop the Uniform Financial Reporting Plan. In 1977, Dr. Lipshutz founded Regulatory Research Corporation of Waban, Massachusetts, a consulting firm of which he is President.

His work in title insurance includes the development of statistical and financial reporting systems adopted as the basis of title insurance regulation in dozens of states. He has testified on title insurance issues before state insurance departments, the insurance committees of the Michigan House of Representatives and the Florida Senate, and the US Department of Housing and Urban Development. During 1993, he served as Coordinator of industry and consumer advisors to the Title Insurance Working Group of the National Association of Insurance Commissioners. He also serves as a consultant to various individual title insurance underwriters and underwritten title companies in areas including loss control, reserve analysis, strategic planning, and mergers and acquisitions. He is a frequent contributor to ALTA publications, and is the author of a book on the industry, ***The Regulatory Economics of Title Insurance***, published in March of 1994 by Praeger Publishers and now in its second printing.

In addition to his work in the title insurance area, Dr. Lipshutz has studied the economics of many other industries, including the pulp and paper industry, the pesticide industry, the automobile industry, and the mortgage insurance industry. He has presented testimony on economic issues before the President's Council on Wage and Price Stability, the US International Trade Commission, the US Environmental Protection Agency, Federal and State courts, and the American Arbitration Association.

CONTENTS

CONTENTS (Continued)

I. INTRODUCTION

For many years, Iowa has been alone among U.S. states in banning the sale of private title insurance. While the subject of removing this ban has arisen frequently in the public press and in the legislative forum, the discussion has focused on philosophy rather than fact.[1] In order to develop quantitative information on the economic consequences of Iowa's ban on title insurance sales, the Title Insurance Coalition, a consortium of Iowa business organizations under the leadership of the Iowa Land Title Association, retained Regulatory Research Corporation to conduct a study of the economic impacts of supplementing the current Iowa system with private title insurance sales. This report summarizes the results of our study.

II. SOURCES OF INFORMATION

In carrying out the study, we drew on a large variety of information sources:

- Special surveys of Iowa businesses including
  - Title abstracters
  - Commercial bankers
  - Mortgage bankers
- Data compiled by title insurers in other states
- Data compiled by title insurance rating agencies and regulators in other states
- Data compiled by national trade associations including
  - American Land Title Association
  - Mortgage Bankers Association

[1] See, for example, Iowa Finance Authority 2002 Annual Report, pg. 27; "Title Insurance - The Fleecing of America," Iowa Bar Association, 2003; "Why Title Insurance Makes a Lot of Sense for Iowa," Iowa Association of Realtors, 2003

    - National Association of Realtors
- Data compiled by U.S. government agencies including
    - Federal Financial Institutions Examination Council for Home Mortgage Disclosure Act (HUMDA) data
    - Bureau of the Census for housing and demographic data
- Data compiled by Iowa state government agencies including
    - Department of Revenue and Finance for real estate transaction and tax revenue data
    - Title Guaranty Division of the Iowa Finance Authority for historic data on the title guaranty program
- Commercial reporting services for prevailing mortgage interest rates and terms

III. CURRENT UTILIZATION OF TITLE GUARANTY CERTIFICATES AND PRIVATE TITLE INSURANCE IN IOWA

The Title Guaranty Division (TGD) of the Iowa Finance Authority (IFA) currently offers Title Guaranty Certificates to cover owners' and lenders' interests in real property. Private title insurers in other states offer Policies of Title Insurance. One important measure of the relative effectiveness of these alternative title assurance mechanisms in meeting Iowa real estate owners' and lenders' needs is the proportion of the people at risk who have coverage. The present section of our report addresses this issue.

A. TGD Title Guaranty Certificates

Our study indicates that, for owners, TGD certificates are hardly used at all. Table 1 compares the number of owner's certificates issued with the number of real property transfers occurring in Iowa for the fiscal years 1999 through 2002.[2] The table demonstrates that ***TGD owner's certificates protect fewer than 1.5% of Iowa real property purchasers.***

The situation is slightly better with respect to loan coverage. We estimate that about 193,000 mortgage loans were originated on Iowa property in 2002. Based on this figure, it appears that ***TGD lender's certificates protect about 31% of real property loans made on Iowa property.*** Table 2 sets forth the calculations.

B. Title Insurance Purchased Out-of-State

It is an open secret that some Iowa consumers purchase title insurance in nearby states. We have used three independent approaches to estimating the volume of this business.

1. Survey of Abstracters

We collected data for the period 1999-2003 from 21 abstracter members of the Iowa Land Title Association. This group produces about 42,000 abstracts and title reports per year, which corresponds to about 20% of the total number of Iowa real estate purchase and refinance transactions. Table 3 summarizes the results. Overall, about 10% of Iowa abstract and title report orders originate from out-of-state. Virtually all of these out-of-state orders can be assumed to be for purposes of issuing title insurance. Our other analyses (see below) indicate that far more title insurance orders originate from in-state sources, but the out-of-state orders constitute a lower bound on the number of title insurance policies written out-of-state on Iowa property and property loans.

We estimate that there were approximately 220,000 mortgage loans originated in Iowa in 2003. Table 4 sets forth the analysis. Based on the abstracter survey, this means that at least

[2] Because real property transfer statistics are compiled by the Iowa Department of Revenue and Finance on a calendar year basis, while certificate issuances are tracked by TGD on a July 1 fiscal year basis, we have restated the reported number of real property transfers on the fiscal year basis.

22,000 title insurance policies of all kinds were written out-of-state on Iowa property in 2003. There is no direct way to determine whether an abstract or title report is being used to underwrite an owner's vs. a lender's policy.

2. Survey of Title Insurance Underwriters

Most title insurance underwriters track their business volume geographically based on the location of the agency or company direct operation writing the business, and so cannot determine the volume of business they write on Iowa property. A few companies do have this capability. As another estimate of the number of out-of-state title insurance policies written on Iowa property, we also examined data from two of these companies. In order to estimate the total volume written in Iowa, we divided the Iowa business volume of these companies by their Iowa market share, estimated as the market shares of non-TGD premium in Iowa reported on all title insurers' Annual Reports (Form 9). Table 5 sets forth the calculations.

This analysis indicates that a total of about 1,000 owner's title insurance policies were written on Iowa property by out-of-state title insurers in 2002, and about 2,300 in 2003, which amounts to between 1% and 2% of the total number of purchase transactions. Further, the data indicate that the average owner's policy on Iowa property has a liability in the $500,000 range, far in excess of the average Iowa home value. This means that only large, financially sophisticated consumers are obtaining owner's title insurance out of state

This analysis also indicates that about 47,000 lender's title insurance policies were written on loans on Iowa property in 2002, and about 70,000 in 2003, which amounts to 25% to 30% of Iowa mortgage loan transactions. The analysis also indicates that around $10 million in title insurance premium on Iowa properties and mortgage loans was written out of state in 2003.

3. Survey of Lenders

We also conducted a survey of the members of the Iowa Bankers Association and the Iowa Mortgage Association (mortgage bankers). We obtained responses from 121 banks and 62 mortgage bankers. The respondents originate approximately 40% of all Iowa mortgage loans. Part of the survey determined the frequency with which these lenders utilize out-of-state title insurance. The survey results indicate that banks use out-of-state title insurance for about 14% of their residential Iowa loans and 4% of their commercial loans, and that mortgage bankers use out-of-state title insurance for about 29% of their residential Iowa loans and about 12% of their commercial loans. Thus, this survey indicates that about 42,000 lender's policies on Iowa property were issued by out-of-state title insurers in 2003. The calculations are presented in Table 6.

4. Overall Conclusions

While the estimation methods we have used give quantitatively different results, they all lead to two clear conclusions:

- Very few Iowa property owners are currently being protected by either TGD owner's certificates or private owner's title insurance policies; and
- A substantial fraction of all Iowa mortgage loans are currently being insured out-of-state.

IV. PROTECTING THE CONSUMER

Any title assurance mechanism, whether a title guaranty certificate issued by TGD or a title insurance policy issued by a private title insurer, provides two types of protection to the consuming public:

- It assures homeowners and the owners of commercial property that they will not be damaged because of some real estate title problem; and
- It keeps down the direct and indirect costs of financing home purchases and other real property acquisitions and improvements by limiting lenders' risks and facilitating transaction closings.

In-state sales of private title insurance would materially improve the Iowa consumer's position in both of these areas.

A. Improving the Breadth of Coverage of Homeowners and Lenders

The Title Guaranty Certificates offered by TGD are identical to the 1970 ALTA Owner's and Lender's Policies of Title Insurance. These policy forms are now 35 years old, and have been superseded throughout the rest of the United States by a variety of updated policy forms.

Homeowners in many states now have available the ALTA Homeowners Policy of Title Insurance for One-to-Four Family Residences. The coverage available to homeowners through this policy form is much broader than the coverage provided by the TGD certificate. A similar development has occurred in the structure of lender's coverage, which is usually paid for by the borrower. The coverage provided by the ALTA Expanded Coverage Residential Loan Policy provides much better coverage to lenders, and incorporates into the policy itself the terms of the endorsements most demanded by lenders. Table 7 compares the coverages of the TGD owner's and lender's certificates with the coverages provided by the current ALTA expanded coverage forms.

It has often been argued that the great advantage of the TGD system is the very low price at which the coverage is offered. Over 100 years ago, the economist John Ruskin observed that:

> "There is no product that some man cannot make a little worse and sell a little cheaper, and those who consider price only are that man's lawful prey."

It is true that title insurance generally sells for a price higher than the $1 per $1,000 of coverage at which TGD quotes the price of Title Guaranty Certificates. However, ***the effective price for a certificate with the available TGD endorsements providing some of the additional coverages offered by the current ALTA homeowners' policy or expanded coverage residential loan policy is about double the $1 per $1,000 of coverage rate quoted by TGD.***[3] ***Further, many of the coverages provided by the ALTA residential owners and residential loan policies are not available at all to purchasers of TGD certificates.*** Table 7 presents the calculations underlying this conclusion.

Why has this situation arisen in Iowa? The history of the ALTA homeowners policy form is instructive. The basic concepts underlying this policy form were originally developed by one of the major private title insurance companies (First American) and incorporated in a proprietary product called the American Eagle policy. The product was widely accepted, and the pressure of competition forced other title insurance companies to develop similar products. Eventually, the policy form was standardized through the ALTA forms review process in October of 1998. The policy form has been continually improved since then, the latest revisions having been adopted in October of 2003. ***Because title assurance in Iowa is a government monopoly, there has been no equivalent competitive incentive for TGD to develop a product meeting the expanded needs***

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[3] The pricing of reissue policies is also affected by this coverage problem. The TGD rate structure incorporates a nominal 50% discount for so-called reissue certificates, i.e., certificates issued on properties that have been insured before. However, because the endorsement price is not affected by whether the policy is original or reissue, ***the effective discount is substantially less than the nominal 50% for a certificate with the available TGD endorsements providing some of the additional coverages offered by the current ALTA residential policies.*** The actual discount is about 40%, which is the same as the prevailing reissue discount percentage for private title insurance.

of homeowners that have developed over the past 35 years as markets and consumer protection policies have evolved.

B. Remedying the Limitations of Attorneys' and Abstracters' Negligence Coverage for Protecting Against Title Defects

Because so few title guaranty certificates and title insurance policies are issued in Iowa, most borrowers and lenders rely for title protection on a title abstract and attorney's title opinion, backed up by the attorney's and abstractor's errors and omissions insurance policies. However, many title related economic losses are caused by events other than negligence on the part of the professionals who abstract and examine the title and close the transaction. [Indeed, this fact was the motivation for the invention of title insurance in 1876.] Many title problems cannot be discovered no matter how diligent the title examiner is. Such so-called "off-record" risks include fraud, forgery, unrecorded mechanics liens, and similar undetectable conditions. These off-record risks are not covered by errors and omissions insurance. While no comprehensive statistics are available on Iowa title losses, there are detailed statistics available in other jurisdictions. Table 8 summarizes the composition of title losses in four major jurisdictions: New Jersey, New York, Pennsylvania, and Texas. The data from the four states are quite consistent, and demonstrate that ***only half of title losses are attributable to causes that would be covered by errors and omissions insurance.***

This poses a significant problem for both the consumer and the abstracter and title attorney. In the absence of a policy from a well-capitalized errors and omissions insurer covering the abstracter or attorney, the consumer must rely on the personal and business assets of the attorney or abstracter to make good a title loss, always assuming that the consumer can prevail in litigation. Similarly, in the absence of insurance coverage, the attorney or abstracter finds his or her business and personal assets at risk.

TGD has fewer claims reported than do title insurers, and it pays much less out. We have compared TGD's ratio of number of claims to number of guarantees issued on a policy year basis to the ratios prevailing in one other state (Pennsylvania) for which similar data are available. Table 9 presents the analysis. Overall, ***TGD experiences only about 40% as many claims per policy written as do title insurers in Pennsylvania.*** We have also compared the average loss paid per claim reported on the same basis. Table 10 presents these figures. ***Except for policies written in 2000, TGD has paid virtually nothing on claims on title guaranty certificates issued over the period 1999-2002. Even if the unusual payment in 2000 is included, TGD has paid only 12% as much per claim reported as do Pennsylvania title insurers.***

It is tempting to believe that this differential is due to a better public record in Iowa than exists elsewhere, but the evidence does not support that explanation. The small amount of Iowa title insurance business reported in private title insurers' Annual Reports (Form 9) for 2003 is based on the same Iowa real estate public record as supports TGD certificates. Yet the ratio of losses to premiums for this business is as high or higher than the ratio in other states. A more credible explanation is that owners and borrowers insured through TGD are looking primarily to attorneys and abstracters for redress of title problems.

In order to estimate the likely magnitude of title losses being absorbed by attorneys, abstracters, lenders, property owners, and borrowers in Iowa, we have applied the average ratio of the number of claims to number of policies issued occurring in other states to the volume of real estate transfers in Iowa. This procedure is appropriate because the use of title insurance is almost universal in the states on which we have data. We have also assumed that the loss per incident is equal to the average loss per claim in other states, adjusted to reflect the difference in real estate prices between Iowa and the other states. Based on this analysis, we estimate that about $3.5 million in gross title losses occurred in Iowa in 2002, and about $5.1 million in 2003. We estimate that about 20% of Iowa title insurance gross losses are covered by private title insurance written out-of-state, and that about 50% of gross Iowa losses were covered by errors and omissions insurance. Therefore, we estimate that the balance of ***about $1.6 million in losses was absorbed by Iowa homeowners, attorneys, lenders, and borrowers in 2002, and $2.4 million in 2003.*** Table 11 sets forth the calculations.

C. Protecting Borrowers

One of the chief benefits of title assurance mechanisms is to reduce the cost of home financing. Our study demonstrates that the TGD title certificate program is less effective than conventional title insurance in achieving this result. In fact, ***in 2003, the loan closing delays produced by the TGD program cost Iowa borrowers over $17.5 million in higher interest costs.*** Our conclusion is based on the data we collected through the lenders survey described above.

The survey indicates unambiguously that a much higher proportion of Iowa mortgage loan applicants need long rate locks than do applicants in other states. (The rate lock period is the length of time after the mortgage application is approved during which a lender guarantees that it will make the loan at the quoted rate.) Overall, about 50% of Iowa borrowers need to obtain 45 to 60 day rate locks rather than 30 day rate locks, whereas only 28% of borrowers in other states need such long rate locks. This means that ***almost 50,000 more Iowa borrowers required long***

rate locks in 2003 than would have been the case if Iowa loans could have been closed as fast as loans elsewhere in the United States. Table 12 sets forth the calculations.

Banks charge higher interest rates on loans with long rate locks than on loans with short rate locks. These higher rates are reasonable, because longer rate locks subject banks to the risk that their cost of funds will rise between the time that the loan commitment is made and the time that the loan is actually closed and the funds must be disbursed to the borrower. We estimated the magnitude of the interest rate differential for long rate locks using two different methods. First, we analyzed the results of the bank and mortgage banker surveys; second, we carried out a regression analysis of the rates published by Iowa banks as reported on the CNN website. Table 13 summarizes the results of these analyses. Overall, a 45 to 60 day rate lock for a 30-year conventional mortgage loan increases the interest rate paid by a consumer by somewhere between 0.15% and 0.20% over the rate the consumer would pay for a loan with a 30 day rate lock. This interest rate differential amounts to $13 to $17 per month in the mortgage interest payment for an average Iowa mortgage loan of $106,000. This aggregates to $150 to $200 for the first year of the loan, and to $3,800 to $4,700 over the life of the loan. Table 14 sets forth the analysis. Multiplying this differential by the number of Iowa borrowers paying the higher rate yields our estimate of $9 million for the first year of the loan. Further, this excess cost would cumulate to over $210 million over the term of the loans originated in 2003. Table 15 presents the calculations.

High interest costs persist over the life of a loan, so excess interest costs were paid in 2003 not just by borrowers who took out loans in 2003, but by all borrowers with debt outstanding. There were about 685,000 owner-occupied housing units in Iowa in 2003, with an average value of $106,815. Based on a typical 78% initial loan-to-value ratio, the average homeowner was paying off an $83,000 mortgage loan with an annual interest cost of around $6,000. Based on the 0.2% interest rate differential caused by slow closings in Iowa, we estimate that ***the aggregate excess interest because of long rate locks paid by Iowa residential borrowers in 2003 was $14 million. Commercial borrowers paid an additional $3.8million. The total excess interest cost was $17.8 million.*** Table 16 sets forth the calculations.

Why do Iowa loans take longer to close than loans in other states? ***The only thing unique about Iowa closing practice is the predominant use of TGD certificates based on attorneys' opinions instead of the title insurance process.*** The difficulty does not lie in the attorney's opinion. Private title insurers utilize attorneys' opinions as a basis for underwriting title insurance in many other states, a process generally referred to as "approved attorney system" underwriting. What is different in Iowa is the slower speed with which the overall title clearing and certificate issuing process is completed.

The burden of slow closings falls heaviest on smaller borrowers. Our underwriter survey data indicate that the average out-of-state loan policy issued in connection with an Iowa property purchase has a liability of about $225,000, which is over twice as large as the average Iowa home loan. Buyers of high value property have the sophistication to avoid delay by purchasing out-of-state title insurance to speed the closing process.

V. PUBLIC FINANCE ISSUES

The profits from the TGD certificate program are used to subsidize housing for the less fortunate. Over the period 1999 to 2003, the program supplied an average of $2.8 million per year to the Iowa Finance Authority. A critical question, then, is whether the introduction of title insurance sales into the Iowa real estate finance system would reduce the availability of public funds to support IFA housing programs.

A. Incremental Tax Revenues from Increasing the Speed of Real Estate Closings

From the point of view of public finance, the current Iowa system can be improved. Eliminating the higher interest rates produced by the need for long mortgage rate lock-in periods would have a material positive impact on Iowa tax revenues.

Mortgage interest payments are deductible in computing both Federal and Iowa personal income taxes. We estimate that ***Iowa personal income tax collections would increase by at least $1 million per year by the closing time reduction produced by augmenting the TGD guaranty system with private title insurance.*** A similar effect would occur with respect to business income tax collections. We estimate that ***Iowa corporate income tax revenue would increase by about $450,000 from lower tax deductions by commercial borrowers.*** Table 17 sets forth the calculations.

The introduction of title insurance sales would generate these tax revenue increases without eliminating the funds flowing from TGD to IFA, as we discuss further in Section VI below. Further, the introduction of title insurance sales would produce several new sources of tax revenue.

B. Additional Tax Revenues from Permitting Title Insurance Sales in Iowa

Permitting title insurance sales in Iowa would also generate additional tax revenue from other sources.

1. Premium Taxes

Iowa is foregoing premium tax revenues on out-of-state title insurance. Our mid-range estimate of the dollar volume of out-of-state title insurance premiums on Iowa property, based on the underwriter survey data, was about $11.5 million in 2003. ***A 1% premium tax on formerly out-of-state title insurance premium volume would generate $115,000 in additional tax revenue.*** Table 18 presents the calculation.

2. Income Taxes from Additional Employment

The title insurance policies on Iowa property produced out-of-state have to be produced by out-of-state employees. Employee productivity in the title insurance industry is about $46,000 of revenue per employee. Applying this figure to the out-of-state premium estimate of $11.5 million, we estimate that about 250 new jobs would be added to Iowa by allowing title insurance to be produced in-state. The average salary of a title company employee is around $25,000 so about $6.3 million in total payroll would be generated. Iowa income taxes paid in the relevant income tax bracket have an effective rate of about 3.28% of adjusted gross income. In consequence, ***employment of Iowa-based title insurance company personnel would generate about $207,000 in additional personal state income taxes.*** Table 19 presents the calculation.

3. Sales and Use Taxes from Additional Employment

New Iowa employees would spend what they make in Iowa. In 2003, Iowans paid about $500 per person in sales and use taxes. The average household size was 2.46 persons. Applying these factors to 253 new breadwinners, we estimate that ***permitting the sale of title insurance in Iowa and so creating new employment and consequent employee personal expenditures would***

generate about $306,000 in additional sales and use tax revenues.. Table 20 presents the analysis.

C. Overall Impact on Iowa Tax Revenues

Table 21 summarizes the overall tax revenue impact of permitting title insurance sales in Iowa. ***Overall, Iowa tax revenues would increase by over $2 million per year if title insurance sales were permitted in Iowa.***

VI. POLICY IMPLICATIONS

The increase in annual Iowa tax revenues of about $2 million dollars would not be the only important consequence of legalizing Iowa title insurance sales. Perhaps the most important effect would be a revitalization of TGD and the Iowa real estate finance marketplace as a whole.

Our study has shown that the TGD title guaranty certificate program has failed to keep pace with modern developments in owner's and lender's coverages, and that the time needed to close real property transactions has become longer in Iowa than in other jurisdictions. These developments are not unexpected, because economic research over the past century has demonstrated that monopoly market structures often place a serious brake on the rate of innovation. Conversely, the introduction of competition generally results in a rapid increase in the quality of service offered by ***all*** market participants.

Everyone is familiar with the impact that the end of AT&T's monopoly on telephone service has had on the variety of telecommunications services available, and with the favorable impact of airline deregulation and the introduction of competition on major airline routes. The terrible consequences predicted in both cases by advocates of monopoly simply did not materialize. Telephone service did not become unreliable. Aircraft safety did not decline. But there is an even closer parallel to the Iowa title assurance situation. There is a recent example of the effects that follow when a government service monopoly faces new private sector competition. It is the response of the U.S. Postal Service to the challenge of Federal Express.

Federal Express exploded onto the economic scene during the postal strike of 1970. When the strike ended, the U.S. Postal Service immediately attempted to shut Federal Express out of the document delivery business, demanding that postage stamps be inserted inside Federal Express packages and threatening litigation. The attempt to freeze Federal Express out of the market failed in the face of strong public demand, and Federal Express became a household word. However, that was not the end of the story. The Postal Service rapidly adopted many Federal Express innovations. It introduced overnight mail service (Express Mail), priced to compete directly with the Federal Express Overnight Letter. The Postal Service introduced new packaging materials using the design principles developed by Federal Express. The Postal Service massively automated its post offices to provide the kind of expedited service formerly associated only with private enterprise. Simultaneously, many private competitors to Federal Express (e.g., UPS and Airborne) entered the small package delivery market. At the end of the day, both the Postal Service and private small package carriers had become vibrant, efficient organizations offering complementary services to a public that was now far better served than it was before. Again, the dire consequences of abandoning a government mail monopoly never materialized. The U.S. mail did not go bankrupt. Postage rates did not reach the high levels characterizing mail services in other countries. The U.S. mail continues to serve remote markets that private carriers cannot economically reach.

Similar favorable results would flow from permitting private title insurance sales in Iowa. The quality of the insurance coverage would be improved, and more property owners and borrowers would be afforded this coverage at a cost not very different from the price they are paying now. Attorneys. abstracters, lenders, and property owners would be relieved of much of the exposure to title loss problems that they currently suffer, and would save some $1.6 to $2.3 million per year in uninsured losses. TGD would adopt the same techniques that title insurers use to facilitate real estate closings based on attorneys' opinions that are used in other states, so that the time needed to complete real estate closings would also decline and Iowa borrowers would no longer need long rate locks. As the length of rate locks declined, so would the average mortgage interest rate paid by Iowa borrowers, saving Iowa borrowers some $18 million per year in mortgage interest payments.

All change is uncomfortable, but the changes attendant on permitting title insurance sales in Iowa that we have described above are favorable. Moreover, the unfavorable consequences that have been suggested are unlikely to occur:

- Permitting title insurance sales in Iowa would not devastate the Iowa real estate bar. Title examinations are still conducted primarily by attorneys in many regions with vibrant title insurance industries, including North Carolina, South Carolina, Connecticut, Georgia, Florida, Illinois, upstate Pennsylvania, northern New Jersey, and upstate New York.
- Permitting title insurance sales in Iowa would not cut off funding for IFA's housing programs. Our analysis demonstrates that even if some current users of the TGD certificate switched to title insurance, Iowa tax collections would increase. These

increased collections could be directed to IFA for its housing programs to offset any decrease in transfers from TGD to IFA.

- Permitting title insurance sales in Iowa would not subject Iowa homeowners to excessive costs. ***Iowa homeowners would continue to be free to utilize the TGD certificate program if it met their needs. But they would also have the opportunity to use private title insurance if it met their needs better. Providing the consumer with additional choices could only increase consumer welfare.*** Further, even those consumers who remained in the TGD program would realize significant interest savings as TGD modernized its processes to respond to the challenge of alternative providers and made low rate lock period loans more usable in Iowa.

Permitting title insurance sales in Iowa would make good public policy.

TABLES

TABLE 1

UTILIZATION OF TGD OWNER'S CERTIFICATES

		TGD Fiscal Year				
		1999	2000	2001	2002	
[1]	Number of Real Estate Transfers	91,112	88,239	85,679	87,894	
[2]	Number of TGD Owner's Certificates	1,423	1,842	1,006	741	
						AVERAGE
[3]=[2]/[1]	Fraction of Owners Covered by TGD Owner's Certificates	1.6%	2.1%	1.2%	0.8%	1.4%

Sources:

[1] Real Estate Assessment Sales Ratio Studies 1998 to 2002, Iowa Department of Revenue. Because the studies were performed on a calendar-year basis, we estimated the fiscal year values as the average of the preceding and current calendar year, as follows:

	Calendar Year				
	1998	1999	2000	2001	2002
Reported Number of Real Estate Transfers	93,621	88,602	87,876	83,482	92,305
Average of Prior and Current Year		91,112	88,239	85,679	87,894

[2] Per statistics provided by TGD

[3] =[2]/[1]

TABLE 2

USAGE OF TGD LENDER'S CERTIFICATES IN 2002

[1]	Residential Mortgage Originations in Iowa in 2002	117,798
[2]	Ratio of value of commercial mortgage originations to value of residential mortgage originations in Iowa	26.7%
[3]=[1]X(1+[2])	Estimated Total Mortgage Originations in Iowa in 2002	149,247
[4]	TGD Lender's Certificates in 2002	47,067
[5]=[4]/[3]	Fraction of mortgage loans covered by TGD Certificates	32%

Sources:

[1] Federal Financial Institutions Examination Council for Home Mortgage Disclosure Act (HUMDA) data

[2] Computed from Regulatory Research Corporation lender survey data as follows:

Sample value of mortgage originations 2003

	Residential	Commercial
Banks	2,333,301,820	535,272,612
Mortgage Bankers	5,132,671,626	1,457,963,424
	7,465,973,447	1,993,236,036
Ratio to Residential		26.7%

[3] =[1]X(1+[2])

[4] Estimated as average of fiscal 2002 and 2003 values as follows:

Fiscal Year	Number of Lender's Certificates
2002	40,176
2003	53,957
Average	47,067

TABLE 3

COMPOSITION OF IOWA TITLE ORDER SAMPLE

		Number Reported					As % of Total					
		1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	Average
[1]	Total Abstract and Title Report Orders	29,606	25,390	32,538	35,843	40,794	100.0%	100.0%	100.0%	100.0%	100.0%	1.0%
[2]	Abstract and Title Report Orders Coming from Out-of-State	2,245	2,951	3,647	3,940	3,914	7.6%	11.6%	11.2%	11.0%	9.6%	10.2%
	Breakdown of Line 2 by Type of Customer Placing the Order from Out-of-State											
[3]	Lenders	426	513	564	715	496	19.0%	17.4%	15.5%	18.2%	12.7%	29.4%
[4]	Title Insurance Companies	859	1,170	1,674	1,759	1,691	38.3%	39.6%	45.9%	44.6%	43.2%	42.3%
[5]	Attorneys	98	107	129	187	268	4.4%	3.6%	3.5%	4.7%	6.8%	16.7%
[6]	All Other	652	977	1,056	990	1,089	29.0%	33.1%	29.0%	25.1%	27.8%	28.8%

Source: Special survey of Iowa Land Title Association members conducted by Regulatory Research Corporation

TABLE 4

ESTIMATED NUMBER OF IOWA MORTGAGE ORIGINATIONS IN 2003

[1]	Residential Mortgage Originations in Iowa in 2002	117,798
[2]	National % increase in $ value of mortgage originations in 2003	53.4%
[3]	National % increase in average size of mortgage loan in 2003	4.0%
[4]={(1+[2])/(1+[3])}-1	Estimated National % increase in number of mortgage originations in 2003	47.5%
[5]=[1]x[4]	Estimated Residential Mortgage Originations in Iowa in 2003	173,795
[6]	Ratio of value of commercial mortgage originations to value of residential mortgage originations in Iowa	26.7%
[7]=[5]x(1+[6])	Estimated Total Mortgage Originations in Iowa in 2003	220,194

Sources:

[1] Federal Financial Institutions Examination Council for Home Mortgage Disclosure Act (HUMDA) data

[2] Computed from Mortgage Bankers Association data as follows:

National Originations $Billions

2002	2,483
2003	3,810
Change	53%

[3] Computed from National Association of Realtors data as follows:

Average Price of Houses Actually Sold in Midwest

2002	209,800
2003	218,200
Change	4%

[4] ={(1+[2])/(1+[3])}-1

[5] =[1]x[4]

[6] Computed from Regulatory Research Corporation lender survey data as follows:

Sample value of mortgage originations 2003

	Residential	Commercial
Banks	2,333,301,820	535,272,612
Mortgage Bankers	5,132,671,626	1,457,963,424
All Lenders	7,465,973,447	1,993,236,036
Ratio to Residential		26.7%

[7] =[5]x(1+[6])

TABLE 5

ESTIMATED TITLE INSURANCE POLICIES
WRITTEN ON IOWA PROPERTY
BASED ON UNDERWRITER DATA

		2002			2003		
	NUMBER OF POLICIES	Total	Owner's	Lender's	Total	Owner's	Lender's
[1]	Policies Written on Iowa Property and Mortgage Loans by Sample Companies	18,192	400	17,792	27,370	856	26,514
[2]	Estimated market share of sample companies	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
[3]=[1]/[2]	Total Policies Written on Iowa Property and Mortgage Loans	48,525	1,067	47,458	73,006	2,283	70,723
[4]	Number of potentially insurable transactions	241,552	92,305	149,247	358,652	138,458	220,194
[5]=[3]/[4]	Fraction of transactions insured	20.1%	1.2%	31.8%	20.4%	1.6%	32.1%
	PREMIUMS WRITTEN						
[6]	Premium Written on Iowa Property and Mortgage Loans by Sample Companies	3,100,947	393,634	2,707,313	4,322,569	321,050	4,001,518
[7]	Estimated market share of sample companies	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
[8]=[6]/[7]	Total Premium Written on Iowa Property and Mortgage Loans	8,271,387	1,049,969	7,221,418	11,529,908	856,361	10,673,547

Sources:

[1] Regulatory Research Corporation underwriter survey data.

[2] Estimated as share of non-TGD premium based on Form 9's, as reported in
CDS Performance of Title Insurance Companies 2003 Edition

[3] =[1]/[2]

[4] For owner's policies, 2002 number of real estate transfers from Table 1 footnote [1],
2003 figure estimated as 150% of 2002 figure
For lender's policies, number of mortgages originated from Tables 3 and 4

[5] =[3]/[4]

[6] Regulatory Research Corporation underwriter survey data.

[7] From line [2]

[8] =[6]/[7]

TABLE 6

ESTIMATED TITLE INSURANCE POLICIES IN 2003
WRITTEN OUT-OF-STATE ON IOWA PROPERTY
BASED ON LENDER SURVEY DATA

		ALL LENDERS			BANKS			MORTGAGE BANKERS		
		Total	Residential	Commercial	Total	Residential	Commercial	Total	Residential	Commercial
[1]	Estimated Total Mortgage Originations in Iowa in 2003	220,194	173,617	46,577	61,654	50,149	11,505	158,540	123,468	35,072
[2]	Fraction of loans using out-of-state title insurance	21.8%	24.9%	10.2%	11.8%	13.6%	4.0%	25.6%	29.4%	12.3%
[3]=[1]X[2]	Total Title Insurance Policies Written Out-of-State on Iowa mortgage loans	47,939	43,182	4,757	7,300	6,839	461	40,639	36,343	4,296

Sources:

[1] Grand total column from Table 4 line [7]
Grand total allocated between banks and mortgage bankers based on national average 72% of originations by mortgage bankers.
Within banks and mortgage lender groups, total allocated between residential and commercial based on ratios of lending volumes reported in Regulatory Research Corporation Lender Survey; computed as follows:

Sample values	Residential	Commercial	Total
Banks	2,333,301,820	535,272,612	2,868,574,432
Mortgage Bankers	5,132,671,626	1,457,963,424	6,590,635,050
Total	7,465,973,447	1,993,236,036	9,459,209,482

As %			
Banks	81.3%	18.7%	100.0%
Mortgage Bankers	77.9%	22.1%	100.0%

TABLE 6 (Continued)

ESTIMATED TITLE INSURANCE POLICIES IN 2003
WRITTEN OUT-OF-STATE ON IOWA PROPERTY
BASED ON LENDER SURVEY DATA

Sources (continued):

[2] Regulatory Research Corporation Lender Survey; computed as follows:

[a] Range for Fraction of Loans Using Out-of-State Title Insurance	[b] Midpoint of Range	[c] Number of Lenders Reporting this Level of use	[d] Fraction of Reporting Lenders Reporting this Level of use	[e] Weighted Midpoint
RESIDENTIAL LOANS				
Banks				
None	0.0%	70	63.6%	0.0%
Up to 25%	12.5%	22	20.0%	2.5%
25% to 50%	37.5%	5	4.5%	1.7%
50% to 75%	62.5%	4	3.6%	2.3%
Over 75%	87.5%	9	8.2%	7.2%
			Average fraction	13.6%
Mortgage Bankers				
None	0.0%	28	45.2%	0.0%
Up to 25%	12.5%	9	14.5%	1.8%
25% to 50%	37.5%	8	12.9%	4.8%
50% to 75%	62.5%	3	4.8%	3.0%
Over 75%	87.5%	14	22.6%	19.8%
			Average fraction	29.4%
COMMERCIAL LOANS				
Banks				
None	0.0%	86	83.5%	0.0%
Up to 25%	12.5%	13	12.6%	1.6%
25% to 50%	37.5%	2	1.9%	0.7%
50% to 75%	62.5%	0	0.0%	0.0%
Over 75%	87.5%	2	1.9%	1.7%
			Average fraction	4.0%
Mortgage Bankers				
None	0.0%	37	74.0%	0.0%
Up to 25%	12.5%	6	12.0%	1.5%
25% to 50%	37.5%	1	2.0%	0.8%
50% to 75%	62.5%	1	2.0%	1.3%
Over 75%	87.5%	5	10.0%	8.8%
			Average fraction	12.3%

[3] =[1]X[2]

TABLE 7

COMPARATIVE ANALYSIS OF TGD CERTIFICATES AND CURRENT ALTA POLICIES

Residential Owner's Coverage			Cost of $75,000 Certificate		Cost of $100,000 Certificate		Cost of $150,000 Certificate	
Coverages	Title Guaranty Owner Certificate	ALTA Homeowners Policy of Title Insurance	Original	Reissue	Original	Reissue	Original	Reissue
Included in 1970 ALTA Owner's Policy	YES	YES	75	37.5	100	50	150	75
Zoning	Requires $15 endorsement	Included	15	8	15	8	15	8
Encroachments	Requires $15 endorsement	Included	15	8	15	8	15	8
Location	Requires $15 endorsement	Included	15	8	15	8	15	8
Gap	Requires $30 endorsement	Included	30	30	30	30	30	30
Marketability	UNAVAILABLE	Included						
Events Subsequent to Policy Date								
Taxes newly assessed for period before policy date	UNAVAILABLE	Included						
New encroachment by neighbors	UNAVAILABLE	Included						
Damage to new improvements due to exercise of mineral rights	UNAVAILABLE	Included						
			150	91.5	175	104	225	129
		Effective Rate per $1,000 of Coverage	$ 2.00	$ 1.22	$ 1.75	$ 1.04	$ 1.50	$ 0.86
		Effective Reissue Discount		-39%		-41%		-43%

Lender Coverage			Cost of $75,000 Certificate		Cost of $100,000 Certificate		Cost of $150,000 Certificate	
Coverages	Title Guaranty Lender Certificate	ALTA Expanded Coverage Residential Loan Policy of Title Insurance	Original	Reissue	Original	Reissue	Original	Reissue
Included in 1970 ALTA Lender's Policy	YES	YES	75	37.5	100	50	150	75
Location	Requires $15 endorsement	Included	15	8	15	8	15	8
Zoning	Requires $15 endorsement	Included	15	8	15	8	15	8
Condominium or PUD	Requires $15 endorsement	Included	15	8	15	8	15	8
Variable Rate Mortgage	Requires $15 endorsement	Included	15	8	15	8	15	8
Environmental Protection	Requires $15 endorsement	Included	15	8	15	8	15	8
Comprehensive	Requires $15 endorsement	Included	15	8	15	8	15	8
Standard Exception waiver	Requires $15 endorsement	Included	15	8	15	8	15	8
Gap	Requires $30 endorsement	Included	30	30	30	30	30	30
Usury laws related to this loan	UNAVAILABLE	Included						
Events Subsequent to Policy Date								
Forgeries	UNAVAILABLE	Included						
Defects and encumbrances	UNAVAILABLE	Included						
Environmental liens based on existing law	UNAVAILABLE	Included						
Taxes newly assessed for period before policy date	UNAVAILABLE	Included						
New encroachment by neighbors	UNAVAILABLE	Included						
Damage to new improvements due to exercise of mineral rights	UNAVAILABLE	Included						
			210	123.5	235	136	285	161
		Effective Rate per $1,000 of Coverage	$ 2.80	$ 1.65	$ 2.35	$ 1.36	$ 1.90	$ 1.07
		Effective Reissue Discount		-41%		-42%		-44%

TABLE 8

COMPOSITION OF TITLE INSURANCE LOSSES IN 2002

		New Jersey		New York		Texas		TOTAL	
		Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
[1]	Total Title Losses	1,777	21,520,196	2,525	32,539,317	2,521	32,518,644	6,823	86,578,157
[2]	Losses potentially recoverable through negligence/errors & omissions coverage	1,001	9651401.82	1,041	13,371,974	1,760	19,978,407	3,802	43,001,783
[3]=[1]-[2]	Fraction of losses recoverable through negligence/errors & omissions coverage	56%	45%	41%	41%	70%	61%	56%	50%

Sources:

[1] For New Jersey, Statistical Reports to New Jersey Land Title Insurance Rating Bureau
For New York, Statistical Reports to Title Insurance Rate Service Association
For Texas, Statistical Reports to Texas Department of Insurance

[2] Reporting categories included:

New Jersey

Searching errors
Examination or opinion errors (errors in judgement or omissions)
Description errors (surveys, etc.)
Incorrect Survey
Incorrect Description
Closing errors
Typing or policy review errors
Taxes and special assessment errors

New York

Error or Omission by Agent
Error or Omission by Approved Attorney
Error or Omission by Independent Contractor
Error or Omission by Employee

Texas

Plant, Searching and Abstracting Procedures
Examination and Opinions Error
Survey Inspection/Description Matters
Closing Procedures
Typing or Policy Review Error
Taxes and Special Assessments
Escrows
Trusts

TABLE 9

CLAIMS INCURRED 1999 - 2002

TGD CERTIFICATES VS. PENNSYLVANIA TITLE INSURANCE POLICIES

(Policy Year Basis)

		Policy Year				
		1999	2000	2001	2002	Average
TGD Certificates						
[1]	Number of Certificates Issued	41,025	33,811	33,802	47,789	
[2]	Ultimate Number of Claims	18	27	40	68	
[3]=[2]/[1]	Claims filed per certificate issued	0.000438762	0.000798568	0.001183379	0.001422936	0.0009609
Pennsylvania Title Insurance Policies						
[4]	Number of Policies Issued	405,839	461,206	459,135	615,672	
[5]	Ultimate Number of Claims	1,293	1,165	1,132	680	
[6]=[5]/[6]	Claims filed per policy issued	0.003185992	0.002525986	0.002465506	0.001104484	0.0023205
[7]=[3]/[6]	Ratio of TGD Incidence to Pennsylvania Title Insurance Incidence	13.8%	31.6%	48.0%	128.8%	41.4%

Sources:

[1] Estimated from TGD fiscal year data as follows:

	1999	2000	2001	2002	2003	2004 (est)
Fiscal year count	41,114	40,935	26,686	40,917	54,660	59,438
Estimated calendar year count (average of current and subsequent fiscal year))	41,025	33,811	33,802	47,789	57,049	

[2] Based on TGD claims data, computed as follows:

Policy Year	Claims to Date	Development Factor	Ultimate Claims
1999	17	1.04285714	18
2000	22	1.20971429	27
2001	24	1.68569337	40
2002	20	3.41821156	68
2003	6	10.2546347	62

Development factors based on year/year cumulative loss count

[3] =[2]/[1]

[4] Statistical Reports filed with Title Insurance Rating Bureau of Pennsylvania

[5] Statistical Reports filed with Title Insurance Rating Bureau of Pennsylvania computed as follows:

Policy Year	Claims to Date	Development Factor	Ultimate Claims
1999	622	2.07924097	1293
2000	451	2.58222825	1165
2001	297	3.81256715	1132
2002	76	8.95176609	680

Development factors based on year/year cumulative loss count

[6] =[5]/[6]

[7] =[3]/[6]

TABLE 10

LOSSES PAID PER CLAIM 1999-2002

TGD CERTIFICATES VS. PENNSYLVANIA TITLE INSURANCE POLICIES

(Policy Year Basis)

		Policy Year				
		1999	2000	2001	2002	Average
TGD Certificates						
[1]	Losses Paid to Date	32	92,260	933	0	
[2]	Claims Received to Date	17	22	24	20	
[3]=[1]/[2]	Losses Paid/Claim Received	1.88	4,193.66	38.85	-	1,058.60
Pennsylvania Title Insurance Policies						
[4]	Losses Paid to Date	3,470,593	2,542,149	1,479,137	1,444,388	
[5]	Claims Received to Date	622	451	297	76	
[6]=[4]/[5]	Losses Paid/Claim Received	5,580	5,637	4,980	19,005	8,800
[7]=[3]/[6]	Ratio of TGD Losses Paid per Claim to Pennsylvania Title Insurance Losses Paid per Claim	0%	74%	1%	0%	12%

Sources:

[1] TGD data

[2] TGD data

[3] =[1]/[2]

[4] Statistical reports filed with Title Insurance Rating Bureau of Pennsylvania

[5] Statistical reports files with Title Insurance Rating Bureau of Pennsylvania

[6] =[4]/[5]

[7] =[3]/[6]

TABLE 11

ESTIMATED IOWA GROSS TITLE LOSSES 2002-2003

		2002	2003
[1]	Number of mortgage loans in Iowa	149,247	220,194
[2]	Expected number of losses/transaction	0.004171	0.004171
[3]=[1]x[2]	Expected number of Iowa losses	623	918
[4]	Expected average title loss	6,420	6,420
[5]=[3]x[4]	Expected Iowa title losses	3,999,751	5,893,693
[6]	Fraction of losses covered by title insurance on Iowa risks written out-of-state	20.1%	20.4%
[7]	Fraction of losses recoverable through negligence/errors & omissions coverage	50%	50%
[8]=[5]x(1-[6])x(1-[7])	Estimated title losses absorbed by attorneys, abstractors, lenders, and borrowers	1,608,730	2,362,573

Sources:

[1] 2002 value from Table 2 line [3]
2003 value from Table 4 line [7]

[2] Computed from average 2002 experience in New Jersey, New York, Pennsylvania, and Texas, as follows:

	New Jersey	New York	Pennsylvania	Texas	
Number of policies	450,585	703,849	615,672	1,080,778	
Number of losses	1,777	2,525	4,218	2,489	Average
Losses/Policy	0.003943762	0.003587417	0.006851051	0.002302971	0.004171

Data taken from filed statistical reports

[3] =[1]x[2]

[4] Computed from average 2002 experience in New Jersey, New York, Pennsylvania, and Texas, as follows:

		New Jersey	New York	Pennsylvania	Texas	
[a]	Total loss expense	13,000,157	32,539,317	9,582,555	32,518,644	
[b]	Number of losses	1,777	2,525	4,218	2,489	
[c]=[a]/[b]	Loss size	7,316	12,887	2,272	13,065	
[d]	Index to Iowa real estate values	2.0703	1.8024	1.1758	1.0000	Average
[e]=[c]/[d]	Normalized loss size	3,534	7,150	1,932	13,065	6,420

Index to Iowa Real Estate Values

	Iowa	New Jersey	New York	Pennsylvania	Texas
Median Price of Owner Occupied Housing	82,500	170,800	148,700	97,000	82,500
Index to Iowa	1.0000	2.0703	1.8024	1.1758	1.0000

Loss data taken from filed statistical reports.
Median price of owner-occupied house from U.S. Census data.

[5] =[3]x[4]

[6] Table 5 line [5]

[7] Table 8 line [3] Total Dollars column

TABLE 12

IOWA BORROWERS NEEDING LONG RATE LOCKS IN 2003

		Total	Banks	Mortgage Bankers
[1]	Estimated mortgage originations in Iowa in 2003	220,194	61,654	158,540
[2]	Excess percentage of long rate locks	22%	28%	19%
[3]=[1]x[2]	Excess number of borrowers with long rate locks	48,194	17,335	30,859

Sources:

[1] Table 4 line [7]
Total allocated between banks and mortgage bankers based on national average 72% of originations by mortgage bankers.

[2] Computed from lender survey data as follows:

Fraction of borrowers needing long rate locks

	Banks	Mortgage Bankers
Iowa	51%	50%
Elsewhere	23%	31%
Excess	28%	19%

The individual percentages were computed from the sample responses as follows:

			Iowa Borrowers			Other States Borrowers		
	[a] Range for Fraction of Loans Using 45-60 Day Rate Locks	[b] Midpoint of Range	[c] Number of Lenders Reporting this Range	[d] Fraction of Reporting Lenders Reporting this Range	[e] Weighted Midpoint	[f] Number of Lenders Reporting this Range	[g] Fraction of Reporting Lenders Reporting this Range	[h] Weighted Midpoint
Banks	None	0.0%	15	0.1327	0.00%	64	0.5981	0.00%
	Up to 25%	12.5%	23	0.2035	2.54%	12	0.1121	1.40%
	25% to 50%	37.5%	13	0.1150	4.31%	5	0.0467	1.75%
	50% to 75%	62.5%	19	0.1681	10.51%	8	0.0748	4.67%
	Over 75%	87.5%	43	0.3805	33.30%	18	0.1682	14.72%
				Average fraction	50.66%			22.55%
Mortgage Bankers	None	0.0%	7	0.1111	0.00%	25	0.4237	0.00%
	Up to 25%	12.5%	12	0.1905	2.38%	11	0.1864	2.33%
	25% to 50%	37.5%	8	0.1270	4.76%	4	0.0678	2.54%
	50% to 75%	62.5%	17	0.2698	16.87%	5	0.0847	5.30%
	Over 75%	87.5%	19	0.3016	26.39%	14	0.2373	20.76%
				Average fraction	50.40%			30.93%

[3] =[1]x[2]

TABLE 13

RELATIONSHIP OF 30-YEAR CONFORMING LOAN INTEREST RATE TO LOCK IN PERIOD

		Difference in interest rates between mortgage loan with 45-60 day rate lock and 15-30 day rate lock
	Iowa Lender Survey Data:	
[1]	Banks	0.15%
[2]	Mortgage Bankers	0.19%
	Quotes Published by Iowa Lenders:	
[3]	Regression Model	0.20%

Sources:

[1] Computed from survey responses as follows:

[a] Range for Additional Interest Charge for 45-60 Day Rate Locks	[b] Midpoint of Range	[c] Number of Lenders Reporting this Range	[d] Fraction of Reporting Lenders Reporting this Range	[e] Weighted Midpoint
None	0.000%	35	0.3097	0.000%
Up to 1/4%	0.125%	47	0.4159	0.052%
Between 1/4% and 1/2%	0.375%	31	0.2743	0.103%
More than 1/2%	0.750%	0	0.0000	0.000%
Average Charge				0.155%

[2] Computed from survey responses as follows:

[a] Range for Additional Interest Charge for 45-60 Day Rate Locks	[b] Midpoint of Range	[c] Number of Lenders Reporting this Range	[d] Fraction of Reporting Lenders Reporting this Range	[e] Weighted Midpoint
None	0.00000	10	0.1587	0.000%
Up to 1/4%	0.00125	34	0.5397	0.067%
Between 1/4% and 1/2%	0.00375	17	0.2698	0.101%
More than 1/2%	0.00750	2	0.0317	0.024%
Average Charge				0.192%

[3] Computed by multiplying regression coefficient for rate lock period in days in regression model by 15 day excess lock-in time, as follows:

Regression Model Specification:
Interest Rate = constant + coefficient x rate lock period in days

Differential calculation:
Diferential = 0.013566% per day x 15 days

REGRESSION MODEL PARAMETERS

Regression Statistics	
Multiple R	0.480961023
R Square	0.231323506
Adjusted R Square	0.200576446
Standard Error	0.002761134
Observations	27

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	5.73576E-05	5.73576E-05	7.52343501	0.011096459
Residual	25	0.000190596	7.62386E-06		
Total	26	0.000247954			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.054859537	0.001995445	27.49237977	3.33005E-20	0.05074984	0.058969233
X Variable 1	0.00013566	4.94586E-05	2.742888078	0.011096459	3.37975E-05	0.000237522

TABLE 14

COST IN 2003 TO AN INDIVIDUAL IOWA BORROWER OF A LONG RATE LOCK-IN PERIOD

		Banks' Customers	Mortgage Bankers' Customers
[1]	Average loan amount	106,070	106,070
[2]	Average mortgage interest rate with 30-day rate lock	5.80%	5.80%
[3]	First month interest for 30-year loan originated with 30-day rate lock	$512.67	$512.67
[4]	Average mortgage interest rate with 45-day rate lock	5.95%	5.99%
[5]	First month interest for 30-year loan originated with 45-day rate lock	$526.36	$529.68
[6]=[5]-[3]	Excess interest cost for first month	$13.69	$17.01
[7]	First year interest for 30-year loan originated with 30-day rate lock	$6,116.48	$6,116.48
[8]	First year interest for 30-year loan originated with 45-day rate lock	$6,280.85	$6,320.75
[9]=[8]-[7]	Excess interest cost for first year	$164.36	$204.27
[10]	Interest over term of loan for 30-year loan originated with 30-day rate lock	$117,982.57	$117,982.57
[11]	Interest over term of loan for 30-year loan originated with 45-day rate lock	$121,762.47	$122,684.24
[12]=[11]-[10]	Excess interest cost over life of loan	$3,779.91	$4,701.67

TABLE 14 (Continued)

COST IN 2003 TO AN INDIVIDUAL IOWA BORROWER OF A LONG RATE LOCK-IN PERIOD

Sources:

[1] Calculated as follows:

		Iowa 2002 Residential Loans
[a]	Value of loans	12,013,797,000
[b]	Number of loans	117,798
[c]=[a]/[b]	Average loan originated in 2002	101,986
[d]	National % increase in average mortgage loan 2002 to 2003 from Table 4 line [3]	4.00%
[e]=[c]x[d]	Average loan originated in 2003	106,070

[2] Federal National Mortgage Association data

[3] Per mortgage tables

[4] Banks' customers value = Line [2] + Table 13 line [1]
Mortgage bankers' customers value = Line [2] + Table 13 line [2]

[5] Per mortgage tables

[6] =[5]-[3]

[7] Computed as follows:

	30-day rate lock	
Month	Banks' Customers	Bankers' Customers
1	$512.67	$512.67
2	$512.14	$512.14
3	$511.61	$511.61
4	$511.07	$511.07
5	$510.53	$510.53
6	$509.99	$509.99
7	$509.45	$509.45
8	$508.90	$508.90
9	$508.36	$508.36
10	$507.81	$507.81
11	$507.25	$507.25
12	$506.70	$506.70
Total	$6,116.48	$6,116.48

TABLE 14 (Continued)

COST IN 2003 TO AN INDIVIDUAL IOWA BORROWER OF A LONG RATE LOCK-IN PERIOD

Sources:

[8] Computed as follows:

	45-day rate lock	
Month	Banks' Customers	Mortgage Bankers' Customers
1	$526.36	$529.68
2	$525.83	$529.15
3	$525.30	$528.62
4	$524.77	$528.09
5	$524.23	$527.55
6	$523.69	$527.02
7	$523.15	$526.47
8	$522.60	$525.93
9	$522.06	$525.38
10	$521.51	$524.83
11	$520.95	$524.28
12	$520.40	$523.73
Total	$6,280.85	$6,320.75

[9] =[8]-[7]

[10] Computed as follows:

	30-day rate lock	
	Banks' Customers	Mortgage Bankers' Customers
Monthly Payment	$622.37	$622.37
Number of Payments	360	360
Total Paid	$224,052.34	$224,052.34
Less:		
Loan amount	$106,069.77	$106,069.77
Equals:		
Total Interest Paid	$117,982.57	$117,982.57

[11] Computed as follows:

	45-day rate lock	
	Banks' Customers	Mortgage Bankers' Customers
Monthly Payment	$632.87	$635.43
Number of Payments	360	360
Total Paid	$227,832.25	$228,754.01
Less:		
Loan amount	$106,069.77	$106,069.77
Equals:		
Total Interest Paid	$121,762.47	$122,684.24

[12] =[11]-[10]

TABLE 15

AGGREGATE COST OF LONG RATE LOCK-N PERIODS TO ALL IOWA BORROWERS WHO TOOK OUT LOANS IN 2003

		All Customers	Banks' Customers	Mortgage Bankers' Customers
[1]	Excess number of borrowers with 2003 loan originated with long rate lock	48,194	17,335	30,859
[2]	Excess interest cost for first month		$13.69	$17.01
[3]=[1]x[2]	Aggregate excess interest cost to 2003 Iowa borrowers for first month	$762,267	237,298	524,969
[4]	Excess interest cost for first year		$164.36	$204.27
[5]=[1]x[4]	Aggregate excess interest cost to 2003 Iowa borrowers for first year	$9,152,715	2,849,249	6,303,466
[6]	Excess interest cost over term of loan		$3,779.91	$4,701.67
[7]=[1]x[6]	Aggregate excess interest cost to 2003 Iowa borrowers over term of loans	$210,613,513	$65,524,692	$145,088,822

Sources:

[1]	Table [12] line [3]
[2]	Table 14 line [6]
[3]	=[1]x[2]
[4]	Table 14 line [9]
[5]	=[1]x[4]
[6]	Table 14 line [12]
[7]	=[1]x[6]

TABLE 16

COST IN 2003 TO ALL IOWA BORROWERS OF LONG RATE LOCK-IN PERIODS

[1]	Number of Iowa owner-occupied housing units in 2003	685,405
[2]	Fraction of homes with mortgages	62.97%
[3]=[1]x[2]	Number of residential mortgages outstanding in 2003	431,600
[4]	Excess fraction of Iowa mortgages originated with long rate locks	22%
[5]=[3]x[4]	Number of outstanding residential mortgages originated with long rate locks	94,465
[6]	Average home value 2003	106,831
[7]	Average original individual mortgage amount	83,118
[8]	Average excess individual mortgage interest payment 2003	148.85
[9]=[5]x[8]	Total excess mortgage interest payments by Iowa homeowners in 2003	14,061,341
[10]	Ratio of value of commercial mortgage originations to value of residential mortgage originations in Iowa	26.7%
[11]=[9]x[10]	Total excess mortgage interest payments by Iowa commercial real estate borrowers in 2003	3,754,041
[12]=[9]+[11]	Total excess mortgage interest payments made by all residential and commercial Iowa borrowers in 2004	17,815,383

TABLE 16 (Continued)

COST IN 2003 TO ALL IOWA BORROWERS OF LONG RATE LOCK-IN PERIODS

Sources:

[1] Estimated from U.S. 2000 Census of Housing data as follows:

Census figure	665,442
Increase in number of properties at 1% per year	1.03
Estimated 2003 figure	685,405

[2] U.S. Census, American Housing Survey 2003

[3] =[1]x[2]

[4] Table 12 line [2] Total column

[5] =[3]x[4]

[6] Computed from U.S. 2000 Census of Housing data as follows:

Census figure	97,563
Increase in average price of properties sold 2000-2003	9.5%
Average home value 2003	106,831

[7] Computed from Federal Housing Finance Board data as follows:

Average home value 2003	106,831
Average loan/value ratio 1994-2003	0.778
Average original individual mortgage amount	83,118

[8] Based on average age of loan of 24 months at beginning of year, computed as follows:

	45-day rate lock interest rate	Share of market	Weighted interest rate
Banks	5.95%	28%	1.67%
Mortgage Bankers	5.99%	72%	4.31%
Average			5.98%

Average interest during 2003 at 5.98% rate	4,811.84
Average interest during 2003 at 5.8% rate	4,662.98
Average excess interest payment 2003	148.85

[9] =[5]x[8]

[10] Table 4 line [6]

[11] =[9]x[10]

[12] =[9]+[11]

TABLE 17

IMPACT OF INTEREST RATE REDUCTIONS FROM SPEEDIER CLOSINGS ON IOWA INCOME TAX REVENUES

[1]	Eliminated excess interest payments by Iowa homeowners in 2003	14,061,341
[2]	Effective Iowa tax rate on incremental personal income from reduced mortgage interest deduction	7.54%
[3]=[1]x[2]	Additional personal income tax revenue from lower deductions for interest on residential real estate loans	1,060,675
[4]	Eliminated excess interest payments by commercial borrowers in 2003	3,754,041
[5]	Iowa marginal corporate income tax rate	12%
[6]=[4]x[5]	Additional corporate income tax revenue from lower deductions for interest on commercial real estate loans	450,485
[7]=[3]+[6]	Total additional personal and corporate income tax revenue from lower deductions for interest on both residential and commercial real estate loans	1,511,160

Sources:

[1] Table 16 line [9]

[2] Computed as follows:

Iowa statutory rate	8.98%
1 - effective federal tax rate of 16%	0.84
Iowa effective net rate	7.54%

[3] =[1]x[2]

[4] Table 16 line [11]

[5] Per statute

[6] =[4]x[5]

[7] =[3]+[6]

TABLE 18

ADDITIONAL IOWA PREMIUM TAX REVENUES
PRODUCED BY PERMITTING IOWA TITLE INSURANCE SALES

[1]	Projected additional premium written in-state on owner's and mortgage title insurance policies	11,529,908
[2]	Iowa premium tax rate	1%
[3]=[1]x[2]	Additional Iowa premium tax revenue	115,299

Sources:

[1]	Table 5 line [8] 2003 Total column
[2]	Per statute
[3]	=[1]x[2]

TABLE 19

ADDITIONAL IOWA PERSONAL INCOME TAXES FROM INCREASED EMPLOYMENT PRODUCED BY PERMITTING IOWA TITLE INSURANCE SALES

[1]	Projected additional premium written in-state on owner's and mortgage title insurance policies	11,529,908
[2]	Title insurance industry revenue/employee	45,625
[3]=[1]/[2]	Number of additional Iowa jobs created	253
[4]	Average salary/employee	25,000
[5]=[3]x[4]	Additional Iowa payroll created	6,325,000
[6]	Iowa income tax as percent of gross income at $25,000 income level	3.28%
[7]=[5]x[6]	Additional Iowa personal income tax revenue from increased employment	207,592

Sources:

[1] Table 5 line [8] 2003 Total column

[2] Based on ALTA 2003 Abstracter and Title Agent Technology Survey data. Computed from survey medians as follows:

Gross Revenue	365,000
Total full-time equivalent number of employees	8
Revenue/employee	45,625

Part-time employee counted as 50% of full time employee

[3] =[1]/[2]

[4] Based on ALTA 2003 Abstracter and Title Agent Technology Survey data. Computed from survey medians as follows:

Gross Payroll	200,000
Total full-time equivalent number of employees	8
Payroll/employee	25,000

[5] =[3]x[4]

[6] Iowa Department of Revenue, 2002 Iowa Individual Income Tax Annual Statistical Report, Table 02, $25,000 to $29,999 line.

Tax Paid	$147,784,156
Adjusted Gross Income	$4,502,744,585
Average Tax Rate	3.28%

[7] =[5]x[6]

TABLE 20

ADDITIONAL IOWA SALES AND USE TAXES FROM INCREASED EMPLOYMENT PRODUCED BY PERMITTING IOWA TITLE INSURANCE SALES

[1]	Number of additional Iowa jobs created	253
[2]	Iowa average persons/household	2.46
[3]=[1]x[2]	Number of additional sales and use tax payers	622
[4]	Iowa sales and use taxes per capita	491.77
[5]=[3]x[4]	Additional Iowa sales and use tax payments	305,879

Sources:

[1] Table 19 line [3]

[2] U.S. Census, Current Population Survey

[3] =[1]x[2]

[4] Iowa Retail Sales and Use Tax Report FY2003, page VI, and U.S. Census, Current Population Survey.

Computed as follows:

Gross sales and use taxes FY2003	1,434,728,563
Iowa Population 2003	2,917,500
Iowa sales and use taxes per capita	491.77

[5] =[3]x[4]

TABLE 21

SUMMARY OF ADDITIONAL TAX REVENUE GENERATED
BY PERMITTING IOWA TITLE INSURANCE SALES

[1]	Total additional Iowa personal and corporate income tax revenue from lower deductions for interest on both residential and commercial real estate loans	1,511,160
[2]	Additional Iowa premium tax revenue	115,299
[3]	Additional Iowa personal income tax revenue from increased employment	207,592
[4]	Additional Iowa sales and use tax revenue from increased employment	305,879
[5]=[1]+[2]+[3]+[4]	Total additional Iowa annual tax revenue	2,139,930

Sources:

[1]	Table 17 line [7]
[2]	Table 18 line [3]
[3]	Table 19 line [7]
[4]	Table 20 line [5]
[5]	=[1]+[2]+[3]+[4]