

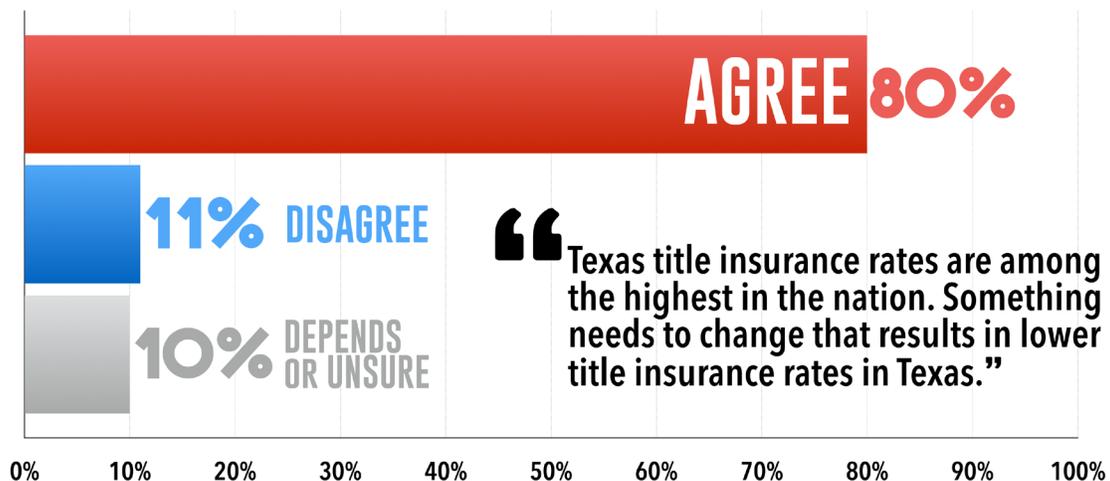
# TEXAS TITLE INSURANCE

Title insurance rates in Texas are more expensive than all but four states in the U.S. for a \$300K home with 5% down. Texans deserve to have a choice!



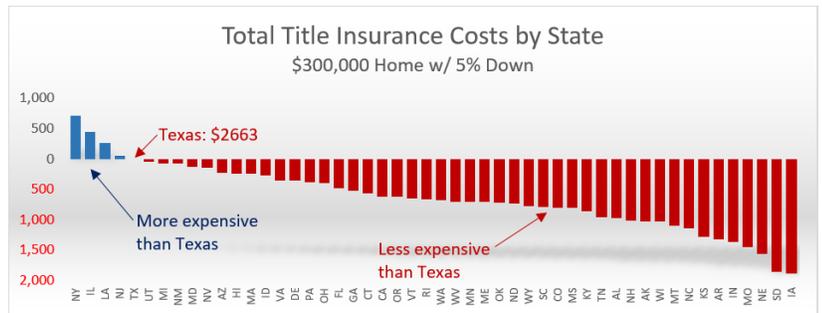
## TEXANS WANT OPTIONS

CHOICE, COMPETITION, AND FREE MARKETS OVERWHELMINGLY SUPPORTED



# Why Texas Needs Competition in the Title Insurance Market

- Texas has the most heavily regulated title insurance market in the country; unlike most other states, the government sets a fixed rate for title insurance, preventing competition for consumer’s business.
- By requiring the purchase of comprehensive, one-size-fits-all title insurance policies at a fixed rate, Texas increases costs for both consumers and businesses by hundreds of millions of dollars every year.
- Research from the Texas Public Policy Foundation shows that Texas has the fifth highest title costs in the nation for a \$300,000 home. This is an “apples to apples” comparison taking into account all title insurance-related costs, not just premiums.
- A 2011 study by the LBJ School of Public Affairs found that Texas had the highest title insurance rates for a \$200,000 home among states that require comprehensive coverage.
- The upcoming LBJ study says, “Texas’ mandate of comprehensive service coverage in its premium (versus only risk premium being required in some other states) does not account for the higher costs in Texas.”
- The high prices and lack of competition shouldn’t be a surprise when taking into account Texas law; Title 11, Texas Insurance Codes, states, “The purpose of this title is to completely regulate the business of title insurance on real property...”
- Commercial title insurance rates in Texas appear to be even more overpriced than residential rates; this could negatively impact the relocation and expansion of businesses in Texas.
- The U.S. GAO found that price competition would benefit consumers, and recommended that the “Secretary of HUD should take action to (1) protect consumers from illegal title insurance marketing practices and (2) improve consumers’ ability to comparison shop for title insurance.”
- A recent poll found that 91 percent of Texans agree that since they can shop around for automobile and home insurance, they should be able to shop around for the best deals on title insurance.
- Reforming title insurance regulation by allowing price and form competition would result in more choices for consumers and lower prices.
- Reducing the high price of commercial title insurance would lower the cost of doing business in Texas and result in a stronger economy and more jobs.



C O M M E N T A R Y

### The Texas Title Insurance Market Should be Freed from Overregulation

By Brooke Rollins and Bill Hammond  
*This piece originally ran on YribTalk.com.*



**L**iberty is the lifeblood of the great American experiment. The mechanism through which liberty is exercised in our free-enterprise system is competition. We see its benefits every day—and we also see the problems caused by its absence.

Unfortunately, we need to look no further than Texas’ title insurance market to witness these problems. Competition

costs are high because consumers do not have the ability to shop on either price or quality. The price for policies is the same throughout the state and across sellers. Likewise, the options for coverage are severely limited so for most consumers it is a one-size-fits-all policy—whether or not you need that coverage.

Texans instinctively understand the problems with a command-and-control

like U.S. Sen. Ted Kennedy and President Jimmy Carter saw the harm caused by this and led the fight to eliminate price regulation in these markets.

But the best example of why competition and choice are good for everyone is the state of Texas itself. The Texas Model of low taxes and spending, less regulation, a sound civil justice system and less dependence on the federal government has

# Q&A on Texas Title Insurance Monopoly Pricing

## **How do title insurance rates in Texas compare to that of other states?**

Not well. Data compiled by the Texas Public Policy Foundation shows that the price in Texas for title insurance is the fifth highest in the country for a \$300,000 home with 5 percent down. These findings echo an earlier report published by the Lyndon B. Johnson School of Public Affairs, which graded Texas as the most expensive for homes at the \$200,000 and \$400,000 price-points among those states with comprehensive rates. The evidence overwhelmingly supports what many homeowners have already concluded: Texans overpay when purchasing title insurance.

## **Why are Texas title insurance rates so much higher than the national average?**

The short answer is because the state sets a monopoly price for title insurance. As opposed to just about every other industry and every other state, title insurance rates in Texas are not negotiated by the parties to the transaction. Instead, the rates are set by the government. Only two other states rely on this method of promulgated rates: Florida and New Mexico. This means that title insurance companies are entitled to charge monopoly prices and earn monopoly profits. This amounts to Texas consumers paying a “title insurance tax” of hundreds of millions of dollars a year per year that goes directly into the coffers of title insurance companies. And there is no hope at all for consumers to get better prices; the law actually prohibits companies from offering customers lower prices.

## **With so many different regulatory systems nationwide, is it even possible to get an accurate, apples-to-apple comparison of state title insurance rates?**

Yes. Although Texas rates are semi-comprehensive—meaning that they include most of the costs associated with title insurance, data collected by the Texas Public Policy Foundation takes into account the distinct manner by which Texas premiums are calculated. It includes costs that would be attached to a homebuyer’s final bill across all 50 states, such as the premiums, title search, escrow fees, and more. The Foundation’s research achieves an apple-to-apples comparison which confirms that Texas title insurance rates rank among the highest in the nation.

## **But haven’t title insurance rates declined over the last few years?**

Premiums decreased by about 15 percent over the last 25 years; however, industry costs have dropped far more during that same period. The labor-intensive costs once associated with title searches have evaporated in recent years as property records migrated online. Agents can now use technology to search title records to learn in minutes what used to require hours at the county courthouse. Rates haven’t fallen anywhere close to the level that would accurately reflect the decline in costs because the government tells consumers what they have to pay. Texas prices will only decline when title insurance companies are forced to compete and pass savings along to their customers.

## **Doesn’t title insurance play a significant role in real estate transactions and therefore the economy as a whole?**

Yes. Title insurance indemnifies Texans from the rare event that someone else has a competing claim to their property. This facilitates long-term investments in real estate since banks, mortgage holders, and prospective buyers know that their asset will not be compromised so long as the policy is in effect. But title insurance currently does the same thing in the 47 other states that don’t set monopoly prices. None of these other states are suffering from a private property crisis because regulators are not fixing the price of title insurance.

## **Will the introduction of competition hurt consumers?**

No. In fact, it will help them. Texas’ system of monopoly rate regulation is an outlier among the states. Most other states allow price competition, and the benefits to consumers through lower prices are clearly established; the median states has prices about \$750 lower than Texas on a \$300,000 home. And consumers in these states have no problems securing an effective policy. Loss ratios vary some, depending on a wide range of factors, but the nature of the product keeps them low across the board—5 percent of the total premiums written nationwide. The end result of increasing competition in the Texas title insurance market is that consumers will have better coverage at lower prices.

# TEXAS TITLE INSURANCE

**“Price competition does not and cannot exist in the title insurance market in Texas under the current regulatory structure.”**

~ David Eaton, Ph.D., Univ. of Texas Lyndon B. Johnson School of Public Affairs

Did you know that Texas’ government engages in price fixing? Under Title 11 of the Texas Insurance Code, the state has assumed the authority to “completely regulate” the business of title insurance. This means that it sets rates, determines coverage options, and assumes overall control of the details usually negotiated by parties in a transaction.

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Unlike in other market, Texas exhibits no trust that buyers and sellers of title insurance can come to a mutually beneficial agreement. This begs the question, why should title insurance be treated any different? The Texas Legislature should increase competition and consumer choice in the title insurance market.