Open House: Title insurance matches may be rigged

by Jim_Woodard

Consumers are paying too much for title insurance premiums, according to a report recently issued by the Government Accountability Office. Maybe it's time to take a more serious look at adopting the system used in Iowa - the only state where the sale of title insurance policies is illegal.

The GAO report points out that consumers find it difficult to shop for title insurance and there is very little pressure on insurers to compete on price, due in part to the practice of burying the fees with many others in closing transaction paperwork.

The report also noted that investigations by federal housing officials and state regulators have alleged "illegal activities within the title industry that appear to reduce price competition and could indicate excessive prices." The GAO has recommended that state and federal legislators and regulators improve the consumer's ability to shop for title insurance based on price, and to encourage price competition.

Some real estate brokerage organizations have their own in-house title firms, or have established financial relationships with title firms. In those cases, their agents urge their home buyers to use their title policies despite high premiums. In fact, in some cases these firms won't even permit a representative of another title firm to enter their offices to discuss their products.

The GAO noted that in most other forms of insurance, claims paid out by the insurer often amount to 70 percent or more of incoming premium dollars. In title insurance, the claims paid out are usually less than 5 percent of premiums collected.

Iowa is the only state that prohibits the sale of title insurance. This legislation, in effect since 1947, resulted from strong lobbying by the Iowa State Bar Association.

"Iowa has the premiere land title transfer system in the United States," the bar associated stated in a report. "It's the envy of the rest of the country. Our system of land title transfer provides that titles in Iowa are very stable.

"Coverage provided by an Iowa Title Guaranty certificate is the same as that provided by American Land Title Association policies that are commonly used by title insurance companies. Title insurance is more expensive than Iowa Title Guaranty. Title insurance premiums typically are three to five times greater. Also, legalization of title insurance does not provide consumers with more choice. Typically, consumers are told that they have to purchase a title insurance policy, and are told which company to use to obtain the policy."

This columnist contacted the American Land Title Association asking for their views regarding the Iowa system. No response was received.

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Q: What's the most popular method to tap home equity cash?

A: A large number of homeowners are still refinancing their mortgages to generate needed cash. During the first quarter of this year, 82 percent of mortgages owned by Freddie Mac, a major buyer of existing home mortgages, were refinanced with new loans with at least 5 percent higher balances than their original mortgage.

The refinance share of all mortgage applications during the first quarter was 46 percent, unchanged from the previous quarter.

"Most borrowers with prime adjustable-rate mortgages that were scheduled for an interest-rate adjustment sometime this year have already refinanced these loans. As of March, just over $30 billion of these loans remained active," said Freddie Mac's chief economist.

It was also revealed that properties refinanced during the first quarter of this year experience a median house-price appreciation of 24 percent since the original loan was made. The median age of the original loans was 3.3 years.

These estimates come from a sample of properties where Freddie Mac funded at least two successive loans. Transactions are further screened to verify that the latest loan is for refinance rather then for a home purchase.

Q: Are many homeowners are still obtaining home-equity lines of credit?

A: Fewer homeowners are obtaining home-equity lines of credit. During the housing boom, demand for those lines of credit climbed sharply as property values rose, interest rates fell and lenders made it easy for borrower to tap their equity for everything from home improvements to college tuitions to vacations.

Borrowing against home equity freed up about $187 billion in cash per year between 2001 and 2005, according to a paper by former Federal Reserve Chairman Alan Greenspan and economist James Kennedy. Rising short-term interest rates have driven rates on home-equity lines of credit to an average of about 8.7 percent, up from 4.64 percent in April 2004.

Meanwhile, rates on home-equity loans have increased, but not as much as lines of credit. Home-equity loans average 8.1 percent, up from 6.75 percent since April 2004, according to a report from HSH Associates, a publisher of consumer loan information. As a result, more borrowers have opted for the stability of a fixed-rate home-equity loan over the flexibility offered by a line of credit. Balances on fixed-rate home loans climbed 24 percent over the 12 months ending in March, it was noted by Equifax and Economy.com.

Q: Is unemployment the most rapidly growing problem resulting in mortgage delinquencies?

A: Surprisingly, unemployment and income losses are not a rising cause for mortgage delinquencies - at least for the millions of single-family home mortgages acquired by Freddie Mac. Job-income loss accounted for 36 percent of delinquencies last year, compared with to 43 percent in year 2005.

An increasing number of delinquencies are caused by excessive borrower financial obligations and late payments linked to family or borrower illnesses. Those cases have been rising dramatically, according to Freddie Mac's recently released analysis report.

Send inquiries to Jim Woodard, Copley News Service, P.O. Box 120190, San Diego, CA 92112-0190. Questions may be used in future columns; personal responses should not be expected.

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