

Why Title Insurance makes a lot of sense for Iowa



What is Title Insurance?

Title insurance is a policy that provides protection against serious financial loss due to a defect in the title to the property purchased.

Title insurance covers both claims arising out of title problems that should have been discovered in the public records, and those hidden defects that could not be discovered in the record, even with the most complete examination. The policy covers any valid claim made against the insured's title, and pays for the costs and legal expenses of defending against a title claim.

What is Iowa Title Guaranty?

Iowa Title Guaranty (ITG) is a state-run monopoly program devised in 1985 as an alternative to title insurance. It was authorized and initiated because, years previously, legislation had been passed that made the sale of title insurance illegal in the state. (Iowa is the only state in which the sale of title insurance is prohibited.)

What's the difference between Title Insurance, and Iowa's Title Guaranty?

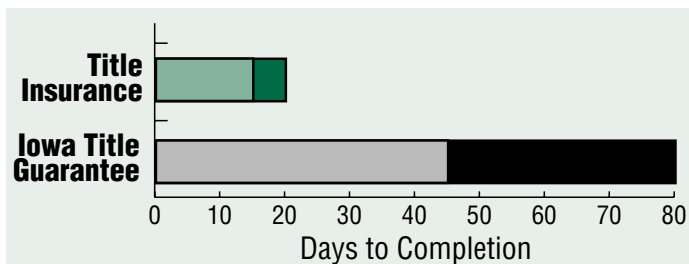
Title insurance is faster, cheaper and better.

Faster:

With title insurance, the process of buying a home can be completed in 2-3 weeks, with the final policy delivered two weeks after closing.

With Iowa Title Guaranty, the process of buying a home generally requires 6-12 weeks, with the final certificate delivered three to nine months after closing.

The terribly long time frame required to complete the Iowa process not only is an inconvenience for the consumer and all involved, but it adds to the cost of the transaction needlessly and significantly.



The Title Insurance time line: 15-20 days

- Buyer decides to purchase a home.
- Buyer contacts lender, applies for loan, obtains rate lock (locking in the interest rate he'll receive).
- Lender or realtor requests title insurance work.
- Title insurer does search of public records (title search) noting any significant defects, and examination.
- Lender approves loan.
- Title insurer issues preliminary report, called commitment - listing any title defects or problems the seller must correct before closing.
- Realtor or closer assures defects and liens have been rectified.
- Closing.

After closing:

- The final title insurance policy is typically issued within two weeks.

Summary:

With title insurance, consumers can complete a real estate purchase in two or three weeks. Lenders can utilize the secondary markets immediately.

Time line Iowa Title Guaranty: 45-85 days

- Buyer decides to purchase a home.
- Buyer contacts lender, applies for loan, obtains rate lock (locking in the interest rate he'll receive).
- Lender or realtor requests title work.

- Seller locates and delivers old abstract to lender. (If old abstract cannot be found, additional time and costs are added.)
- Lender forwards old abstract to abstractor.
- Lender approves loan.
- Abstractor does search of public records, including examination of old abstract.
- Abstractor builds "new" abstract, summarizing (abstracting) all documents affecting the title, typing up all those materials, and assembling a paper abstract.
- Abstractor assembles list of any title encumbrances, defects or problems the seller must correct before closing.
- Abstractor forwards "new" abstract, and list of encumbrances to attorney.
- Attorney "examines" abstract, and issues a preliminary opinion on the title.
- Attorney forwards abstract and preliminary opinion to lender.
- Realtor or closer assures defects and liens have been addressed.
- Attorney requests commitment from Iowa Title Guaranty.
- Iowa Title Guaranty Issues commitment.
- Closing.

After closing:

- Abstract is returned to abstractor.
- Abstractor updates the abstract, gathering all documents related to the new owner(s), new mortgage(s) and assignments. Additionally, releases on all old and paid mortgages must be obtained from old lenders, and current tax status must be assembled and updated. All these materials are summarized, typed up and assembled in the new abstract.
- Abstract is then forwarded to attorney.
- Attorney issues final opinion.
- Attorney submits final opinion and application to Iowa Title Guaranty.
- Iowa Title Guaranty issues Title Guaranty Certificate typically within about six months, but this period may stretch to two years.

Summary:

With Iowa Title Guaranty, it is virtually impossible for a consumer to complete a real estate purchase in less than 40 days. And lenders are forced to wait months or even years before they have the documentation to be in compliance with secondary market rules.

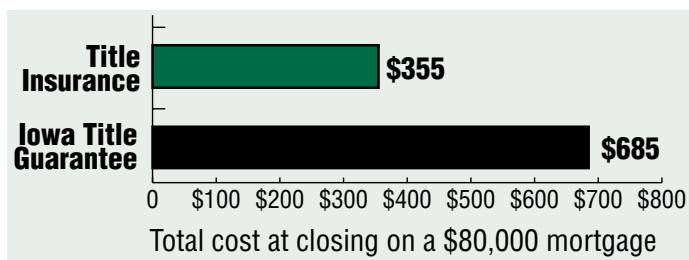
Cheaper: Iowa's Title Guaranty System costs the average home buyer thousands of dollars!

Title insurance is cheaper than Iowa Title Guaranty in three areas: 1) The up-front "closing day" costs; 2) The interest costs the consumer pays on the mortgage; and 3) The pass-through costs Iowa consumers bear because of additional costs Iowa lenders face due to the excessively long time-frame required by the ITG system.

Closing Day Costs +\$330 ±

Compared to Title Insurance, Iowa's up front costs are notably higher. The following example illustrates the cost using ITG in Iowa verses title insurance in Nebraska. In both cases the example is for a home purchase with an \$80,000 mortgage.

Title Guaranty – Iowa	
Abstracting	\$350
Title Opinion	\$150
ITG Lender policy	\$120
ITG Owner policy	<u>\$65</u>
TOTAL:	<u>\$685</u>
Title Insurance – Nebraska	
Title Insurance	<u>\$355</u>
<small>(Includes title search, examination, document preparation and Lender and Owner policies.)</small>	
TOTAL:	<u>\$355</u>



Interest Costs + \$2,880 ±

When a buyer applies for a home mortgage, the lender will guarantee that buyer a certain interest rate for that loan, but only for a limited amount of time. Because of the fluctuation in the market, the longer the time period between the application and the closing of the sale, the higher the rate the lender charges.

This process, called the "rate lock" is fairly standard around the country. For home mortgages in most states, the standard rate locks are calculated on 15 to 30 days (which is the normal amount of time required to close a home sale). Using the Iowa Title Guaranty system makes

closing a sale in 15 days almost impossible, and 30 days difficult. Consequently, virtually every buyer in the state gets a rate lock at 45 to 60 days, which is always at least a quarter percent higher than what would be available at 15 days.

The cost of this additional quarter percent interest to the Iowa buyer with an \$80,000 mortgage is about \$144 per year, **\$2880** for the life of a 20-year loan.

With an average of about 60,000 home sales in the state each year, the cost to those Iowa home buyers is more than \$8.5 million annually, which equals more than \$170 million in additional payments for those mortgages through their 20-year terms.

Summary: In this example, using the Iowa Title Guaranty system, rather than title insurance, costs each Iowa home buyer **\$3210** more over the life of the loan!

Pass-Through Costs + \$??

Most home mortgages are sold into the secondary market, allowing lenders to turn around and offer more loans to local homebuyers. That secondary market requires title insurance, which provides a significant risk-management tool to those investors. In most cases the lender is required to have evidence of title insurance on the loan within 30-45 days of when then loan is sold.

While some traditional players in the secondary market do recognize Iowa Title Guaranty certificates, a number of others do not. For Iowa lenders, that means they have limited options to market their loans, which obviously restricts their ability to operate most efficiently.

More importantly, however, is the fact that those secondary market companies that do recognize ITG still require that evidence of the guaranty is in place in a reasonable time.

Iowa Title Guaranty, however, rarely issues certificates within 45 days of the closing, with six month plus being more the norm. Because Iowa lenders don't receive their ITG certificates for months after the close, they regularly are out-of-compliance on loans sold into the secondary market. Those out-of-compliance loans must be repurchased by the Iowa lender at a loss; and the lender may also face additional costs in the transactions. While accurate data on statewide losses in this area is not available, lenders indicate that costs are substantial. And those costs are ultimately passed back to the Iowa consumer.

Better Probably the most significant problem with ITG is the quality of the product and coverage provided.

Title insurance covers claims arising out of title problems and pays for the costs and legal expenses of defending against a title claim. The difference is that Iowa Title

Guaranty almost never pays claims of any kind. (In the 17 years in which ITG has been in existence, only a couple of claims have been paid.)

If there's a claim on a property that is covered by title insurance, the owner or lender contacts the insurance company, and the company steps up to help resolve or settle the claim. They provide and/or pay for the attorneys' work, and pay for any loss that results from the claim.

But, because of the way ITG is structured, vastly fewer claims in Iowa qualify for any kind of coverage. There are several reasons for this.

The first is that very few owner's policies are sold (despite the fact owner's policies are very inexpensive). Most title claims in the U.S. are filed by owners (rather than lenders). For the lawyers who act as agents for ITG, issuing an owner's policy only puts them in a position of increased risk – the number of claims they would need to handle would increase dramatically.

The second reason fewer claims qualify for coverage is that the common form of title opinion used in the state uses specific language to exclude many of the most common risks owners face, such as mechanic's liens and boundaries. And the third reason is that the guaranty issued by ITG is based on an attorney's opinion.

Summary:

Iowa's Title Guaranty system requires months rather than weeks to complete, costs Iowa consumers millions of dollars, and provides very little actual coverage to those consumers. Allowing title insurance to be marketed in the state could eliminate all of these problems.

Who supports Title Insurance?

Every segment of the real estate, title and mortgage industry, as well as any consumers who understand the benefits of title insurance.