

Sides square off over title, escrow costs

Gregory J. Wilcox, Staff writer

Another skirmish between California Insurance Commissioner John Garamendi and the state's title insurance and escrow industries takes place this week in San Francisco.

Then a big hammer could whack these two sectors right on the wallet, since Garamendi claims he can cut \$1 billion in what he terms are "excessive title insurance costs."

But heading into Wednesday's hearing, both sides are claiming the righteous ground.

At issue is what's considered a fair price for processing the paperwork involved in a home sale. Now it's a percentage of the price of the home or condo. And prices, and those fees, have soared since the start of the decade.

The commissioner said that under his plan the purchaser of a condominium in Los Angeles could save about \$2,370 on title insurance and escrow costs, enough to buy a five-piece dining room set and a washer and dryer.

Here's Garamendi's plan:

Immediately set "interim maximum rates" based on each company's rates in 2000, before prices soared. He claims this will result in a 23 percent reduction in title insurance rates for a home purchase, a 16 percent lowering of the cost of title policies for refinancing, and a 27 percent decrease in the cost of escrow services provided through escrow companies controlled by title insurers.

Companies must report to the department comprehensive information showing their costs and operations starting in 2008. This will enable the commissioner to determine a reasonable cost-based rate for title insurance.

The information will be used to determine a maximum amount that a company may charge for a title insurance policy and escrow fees. And that fee is expected to be well below current rates.

It could be a form of payback, too, because Garamendi is unhappy with the way the title and escrow sectors have been operating.

In a July 25 news release laying out his plan, Garamendi claimed the current system is rife with illegal kickbacks and gratuities that essentially force homebuyers, and those looking to refinance, to pay excessively high premiums.

"I have repeatedly fined these companies \$1 million and more to put a stop to their illegal schemes that have dashed the hopes of consumers looking to realize the American Dream," Garamendi said at the time.

"But to these companies, given their excessive rates, a \$1 million fine was merely a small cost of doing business."

Lawrence Green, executive vice president and counsel of the California Land Title Association, believes that Garamendi's agenda includes more than just saving homebuyers some money.

"It's political rhetoric. I think it has to do with his campaign for lieutenant governor and that his proposal itself is anti-competitive. It would drive out a lot of small businesses in California."

Green noted that titles and escrow fees are lower in California than the national average and represent about one half of one percent of the price of a home here.

And Garamendi's plan to slice fees comes at a time when the residential real estate market is in a tailspin.

"It's not a great market in which to tell everyone we want to cut your revenue when they are already struggling," Green said.

And, according the Web site Bankrate.com, closing costs on a home loan in California have been coming down.

According to Bankrate's closing cost survey, California ranked eighth in 2005 and improved to 17th this year.

But Department spokesman Norman Williams that Garamendi is just doing his job.

"The commissioner has the obligation to examine this industry to find out if its rates are excessive and more to reduce them," he said.

He notes that last year Garamendi commissioned a study that concluded there was not a reasonable level of competition in the industry. (It was done by a Texas-based consulting economist who Green said misunderstands how the business works in California.)

Williams also said that the department spent months working with the industry to try to come up with a solution other than a rate reduction.

"Their definition of what would be appropriate for consumers didn't meet our expectations. We want a system where consumers can easily see the choices that are available. That's when we pushed for the new rules," Williams said.

This is a fight that probably won't end soon. Or quietly.

greg.wilcox@dailynews.com

(818) 713-3743