



Title Insurance

How To Save On Home Closing Costs

Scott Woolley, 05.19.09, 7:00 PM ET

During the housing boom, giddy home buyers rarely gave much thought to the myriad junk fees that got tacked onto the purchase prices of their new homes. After all, a few thousand dollars for title insurance and other dubious charges seemed trivial when home values were soaring. Today, as a new generation of thrifty home buyers takes a harder look at those costs, many are discovering new ways to save.

Much of cost-cutting comes thanks to entrepreneurs who hope to wring inefficiencies out of America's archaic system of transferring the title of a house. In the last two years, for instance, a company called Entitle Direct has received regulatory approval to sell title insurance directly to consumers in 32 states with a simple pricing strategy: Charge a flat 35% less than the going rate in the local market.

Title insurance dates back to the 1800s, when property records were kept on paper and buyers were required to make sure they had clear title to the land they bought before a bank would lend them money. Two centuries later, the business is belatedly being dragged into the digital age, despite fierce lobbying by some members to slow the process.

Title insurance companies have been protected for decades by a wide array of state laws, many of which remain on the books. In Texas, for example, a person buying a \$200,000 home will pay \$1,377 for title insurance. Charging less is against the law.

Entitle Direct hopes to enter Texas in the near future, once its laws change. In the meantime, it is shaking things up in places like New York, where the traditional title insurance market leader, First American, charges \$1,520 to write a policy on a \$250,000 house. Entitle Direct, which won regulatory approval to operate in New York earlier this year, charges \$990 for the same coverage.

The Cleveland, Ohio-based company's business model resembles that of Geico, which sells car insurance directly to consumers, eliminating the cost of brokers' fees and sharing the savings with consumers. In the title insurance world, where broker fees run as high as 80%, there is even more savings to be had, says Entitle Direct founder Timothy Dwyer.

"The industry hasn't changed in the 140 years since the first title insurance policy was written," Dwyer says. "We want to make the closing process more transparent."

Eventually, Dwyer hopes to compete in all 50 states. New Mexico could be his next target. That state has long had on its books a law that fixes the rates that title companies can charge and makes it a crime to undercut them.

That's now changing, thanks to home-buyers' wrath in a down market and a campaign by Think New Mexico—a regional think tank that has shone an unflattering light on the practice of outlawing price competition. Earlier this year, a bill legalizing price competition passed both houses of the state legislature by unanimous votes. Last month, Gov. Bill Richardson signed it into law.

A growing number of Web sites are springing up in the post-bubble era to help home buyers find other ways to lower closing costs. Anthony Farwell and Steven Katinsky founded Closing.com to enable home buyers to comparison shop. The site gives advice on finding cheaper escrow services and avoiding penny-ante fees that often get slipped into closing documents during the final stages of a purchase. The biggest savings on the site comes from its search engine's ability to look for the cheapest title insurance.

Eight Ways To Save When Buying A Home:

Get Your "Good Faith Estimate" Early

Mortgage lenders are required by law to give buyers good faith estimates of the total closing costs within three days of completing a mortgage application, but there's a big loophole. If a mortgage application has a few minor questions outstanding, it is not officially "complete." Try to finish your application early so you can get a look at the estimate while there's still time to do something about it--like demand to know why any ill-defined "transaction" or other fees are being levied and whether they can be negotiated away.

Negotiate Over Interest Rates and Points--But Don't Stop There

The main determinant of your loan's cost is going to be the interest rate and the number of points you pay as a fee for completing the loan. Typically, the two charges get blended together, meaning you can get a lower rate by paying more points or vice versa. But don't stop haggling there. The total cost of your loan will also depend on a variety of additional fees and charges, some of which are added on merely to fatten the middle men's profits.

Title Insurance Tricks

Title insurance is almost always the single biggest closing cost after points. On a \$250,000 house that just sold in Pennsylvania, title insurance alone cost \$1,600. On a \$1.5 million home in New York, the fee topped \$7,000. In the past, the cozy industry found ways to set prices in lockstep and made shopping around a waste of time. In most states, that's no longer true. Web sites such as Closing.com make it easy to comparison shop, and renegade title insurers such as Entitle Direct promise 35% discounts from traditional title insurance rates

Refinance Smartly

Refinancing a mortgage doesn't involve as much paperwork as buying a home outright, but there are still ways to save. The biggest one is to shop around for the lowest mortgage rates available. Also check to see if your state is one of the few that requires mortgage lenders to offer discounts for refinanced homes--in New Mexico for instance, a new law requires insurers to offer at least 60% off to people who bought their homes within the last three years. Unfortunately, when refinancing, it's usually impossible to avoid getting a new title insurance policy, regardless of the fact that this is largely a redundant exercise.

Watch Out for "Junk Fees"

Many lenders and brokers try to sweeten their profits by adding on fees for copying documents, sending them via FedEx and the like. In comparison to what is likely to be the biggest financial transaction of the home buyers' life, the fees seem small. That's no reason not to question them or try to negotiate them away.

Get a Commitment

Once your broker has given you an official estimate of the total cost of the loan, try to get them to agree that there will not be any other charges on the HUD-1, which is the formal agreement that many borrowers don't see until they are sitting at a table signing the final paperwork. At that point, it's too late to haggle over fees. "If they won't agree to that, you have to be a little suspicious," says Claire Fennessey, senior vice president of Entitle Dire

Flood Insurance

Your lender will likely steer you toward insurers who provides other types of coverage. Don't stop there, but instead shop around online. Compared to title insurance, the savings on cheaper flood insurance or home warranty coverage are relatively small. Still, a few minutes online isn't a big investment.

Write to Your State Legislators

It might not save you money on the home you're buying now, but complaining about state laws that keep closing costs high could pay off in the future. States have a variety of laws keeping title insurance rates high, but many are falling. In New Mexico, one of the states where the government fixed rates, a title insurance reform bill passed the state legislature unanimously earlier this year. The reform's not-so-radical step: It's no longer illegal for insurers to sell title insurance for less than state-issued rates. In Texas, it is still illegal for title insurers to compete on price.