

Title Insurers Paid Thousands for Lavish Gifts for Referrals

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The insurance companies that sell coverage to protect against problems with land titles on homes and other property are coming under new regulatory scrutiny.

In a report issued yesterday, Washington state regulators said that title insurance companies there flouted laws by spending thousands of dollars on pro basketball tickets, shopping trips, cocktail parties, boat trips and golf tournaments, in exchange for customer referrals.

The recipients of the lavish gifts, the regulators said, were bankers, builders and representatives of real estate companies. The insurers, who say that the laws governing such referrals are unclear, will not be fined.

“The real shocker was the scope and extent of the abuse,” Mike Kreidler, the insurance commissioner in Washington, said in a statement. “We sure didn’t expect to find that all the major players in the greater Seattle title insurance market were routinely breaking state laws that limit and restrict the use of incentives and giveaways to steer business.” The agency’s report was released after an 18-month investigation.

In an interview, Mr. Kreidler said he was issuing new guidelines, including one to bar title insurers from spending more than \$25 for referrals.

The expense of the improper payments, he said, increased the cost of title insurance for home buyers, who are almost universally required by lenders to purchase the coverage. The insurers, Mr. Kreidler said, spend “too much money on inducements to get business and focus too little on real market competition.”

Title insurers have paid more than \$35 million to settle regulatory complaints in more than 30 states. The Washington regulators said they looked at the practices of units of three national companies that provide most of the title insurance in the Seattle area and others. The three are LandAmerica, Fidelity National Financial and First American.

The New York Times

The insurers say they try to work within the law and treat customers fairly. But a spokeswoman for Land- America, Lloyd Osgood,, said “the laws governing the conduct of the title insurance industry are often unclear at the state and federal level.”

First American, in a statement, disputed “some of the individual findings” by the regulators but said they were “in complete agreement” with Mr. Kreidler’s proposals.

Fidelity National representatives could not be reached for comment.

Mr. Kreidler said that “from this point, if they cross the line, we’re going to nail them.” The worst violators, he said, could have their licenses revoked.

Ms. Osgood said the regulators understood “the need for greater guidance in matters of business conduct within our industry.”

Mr. Kreidler said he and some other regulators were considering major changes in oversight and possible revisions to title insurance policies.

He said home buyers, sellers and lenders needed a way to certify that property had a clear title without undisclosed liens, changes to boundary lines and other shortcomings that could lower values and lead to disputes. But he said “there may be other instruments that can do that.”

Before the computer era, researchers often spent days in courthouses looking through property records. Regulators say title insurance prices still often reflect the costs of an arduous process. But in many cases, they say, property titles can now be thoroughly investigated in a few hours at a computer keyboard.

Late in August, LandAmerica settled an inquiry by Colorado for about \$100,000, according to Erin Toll, a former deputy insurance regulator now overseeing the real estate industry in the state.

The New York Times

In 2004, Ms. Toll initiated investigations into whether the insurers helped create shell companies in many states to funnel payments for referrals. Regulators said they believed that those practices had ended. But Mr. Kreidler said his investigation showed that many abuses continued.

“For example, we saw a billboard on the Interstate for a builder of new homes,” he said. “In small print at the bottom was a title insurance company. We found that the title insurance company paid for that billboard.”

The insurers seemed relieved not to face more fines in Washington. Ms. Osgood of LandAmerica said the clarification of the Washington laws was “going to offer greater guidance in an industry that needs it.”