

*AIS RISK CONSULTANTS, INC.*

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4400 Route 9 South • Suite 1000 • Freehold, NJ 07728 • (732) 780-0330

September 19, 2025

Mr. David Bolduc  
Public Counsel  
Office of Public Insurance Counsel  
Barbara Jordan Building  
1601 Congress Ave., Suite 3.500  
Austin, TX 78701

Re: Texas Title Insurance Industry Rate Analysis – Data Through 2024

Dear Mr. Bolduc:

In accordance with your request, we have performed an analysis of Texas Title Insurance experience for the purpose of deriving an actuarially sound rate indication.

This is an update to our report dated January 21, 2025. The update is based on reported Texas title insurance experience through 2024.

In performing our analysis, we relied on the information supplied by the Office of Public Insurance Counsel (“OPIC”), as well as statistical data available on the Texas Department of Insurance (“TDI”) website.

**Summary of Overall Results**

Based upon our analysis, we derived four rate indications based on the historical time period used. We concluded that a rate decrease in the range of -10.4% to -18.8% is indicated based on the historical experience. The mid-point of these four indications is -14.5%, which is an actuarially sound rate decrease for Texas Title Insurance.

A summary of range indications based on various periods for historical experience is shown in the following table.

**TEXAS TITLE INSURANCE RATE ANALYSIS**

<u>Component</u>	<u>Rate Indications Based on Experience Period</u>			
	<u>5-Year (2020–2024)</u>	<u>10-Year (2015–2024)</u>	<u>15-Year (2010–2024)</u>	<u>20-Year (2005–2024)</u>
(1) Loss & loss adjustment expense ratio	1.8%	1.9%	2.2%	2.4%
(2) Expense ratio	72.7%	76.0%	77.0%	79.9%
(3) Catastrophe loss provision	1.0%	1.0%	1.0%	1.0%
(4) Total	75.5%	78.9%	80.2%	83.3%
(5) Profit provision	7.0%	7.0%	7.0%	7.0%
<b>(6) Indicated rate change</b>	-18.8%	-15.2%	-13.8%	-10.4%

**(7) All periods average rate change -14.5%**

There are five main components that determine the indicated rate change. Those are: (i) loss and loss adjustment expense ratio, (ii) expense ratio, (iii) catastrophe loss provision, (iv) profit provision and (v) historical experience period.

A discussion of each of these items follows.

**1. Loss & Loss Adjustment Expense Ratio**

The loss & loss adjustment expense ratio is calculated as the dollar amount of losses plus loss adjustment expenses divided by the On-Level Adjusted Retained Premium.

The on-level factors brings the historical premiums to the current rate level.

The derivation of the historical loss & loss adjustment expense ratios by year, as well as the expense ratio by year is shown in Exhibit AIS-1.

**2. Expense Ratio**

The expense ratio is calculated as the dollar amount of adjusted expenses included in the rate level divided by the On-Level Adjusted Retained Premium.

The expenses and premiums used in the rate level both include various adjustments, as described below.<sup>1</sup>

Determining rates for title policies requires identifying the revenue and expenses reported in the experience reports that are related to issuing a title policy. This is done by adjusting certain revenue and expense items.

The sum of all revenue in the experience reports is called gross title income. Premium comprises the bulk of gross title income. Pass-throughs and industry transfer items are removed from both premium and gross title income to get “adjusted premium” and “adjusted gross income.” The ratio of adjusted premium to adjusted gross income is called the “expense adjustment ratio.”

Pass-throughs are payments made by title agents on behalf of insureds, which are then reimbursed as part of the closing transaction. Agents pay tax assessors for tax certificates proving the tax status of the property is clean. Agents also pay recording fees to county clerks for filing real estate transaction documentation.

Industry transfer items are payments made between two title entities when one entity completes work for another. The paying entity records the expense, and the receiving entity records the revenue. The two industry transfer items are evidence and examination fees paid to other title entities, and closing fees paid to other title entities.

Pass-throughs and industry transfer items are also removed from expenses along with certain ineligible expenses to get “adjusted expenses.” Ineligible expenses include damages for bad faith suits, fines or penalties, donations or lobbying, and trade association fees. Damages for bad faith suits, fines or penalties, donations and lobbying, and trade association fees represent approximately 0.2% of on-level premium. For comparison, “other expenses,” which are expenses not captured by any other expense category, represent approximately 5.2% of on-level premium. The expense adjustment ratio is applied to these adjusted expenses.

Title revenue comes not only from title insurance premiums, but also from furnishing abstracts of title, escrow fees, and other miscellaneous sources. Because expense data is not broken down by these same sources as revenue, the expense adjustment ratio must be applied to adjusted expenses to approximate the expenses associated only with premiums.

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<sup>1</sup> This is taken from the Texas Department of Insurance, 2025 Title Rate Report, dated September 2025.

The one exception to the expense adjustments as described is that the “net change to unearned premium” is included in expenses at its reported value and not subject to the expense adjustment ratio.

### **3. Catastrophe Loss Provision**

A catastrophe is “A relatively infrequent event or phenomenon that produces unusually large aggregate losses.”<sup>2</sup> Both insurance and non-insurance data can be used to derive a provision for catastrophes.<sup>3</sup>

Neither of those sources of data are reasonably available to derive a numerical value for a catastrophe load for Texas title insurance.

Consistent with historical precedent, a catastrophe loss provision of 1% was used.

### **4. Underwriting Profit Provision**

As explained in our prior reports dated January 21, 2025 and February 13, 2024, an underwriting profit provision of 7.0% is reasonable for title insurance.

The profit provision is dependent on a number of factors including the cost of capital, amount of investable funds and investment rate of return. The largest disagreement between the parties submitting rate recommendations has been with regard to the cost of capital. The cost of capital we used has been lower than that used by TLTA and TDI.

Based on the analyses set forth in our prior reports, the cost of capital should be no more than 12%, although a lower value in the range of 10% would also be reasonable and justified. By contrast, both TLTA and TDI used excessive and unreasonable cost of capital values.

A cost of capital in the range of 10% to 12% is consistent with values commonly used for property casualty insurance. This can be seen from Exhibit AIS-2, which shows cost of capital values from various sources, which are summarized below.

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<sup>2</sup> Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*, Section 2.1  
[https://www.actuarialstandardsboard.org/wp-content/uploads/2014/02/asop039\\_156.pdf](https://www.actuarialstandardsboard.org/wp-content/uploads/2014/02/asop039_156.pdf)

<sup>3</sup> *Ibid.*, Section 3.3

Summary of Cost of Capital Values for Property Casualty Insurance

California Department of Insurance	10.38%
Delaware Compensation Rating Bureau	11.83%
North Carolina Rate Bureau	8.3% <sup>4</sup>
Workers Compensation Rating Bureau of Massachusetts	9.53%

Cost of capital is related to the risk of the business. A review of the underwriting results for title insurance compared to property casualty insurance shows that title insurance is less risky than property casualty insurance. Therefore, if an adjustment were made for risk, it would result in a lower cost of capital, a lower underwriting profit provision and a lower (i.e., more negative) rate indication.

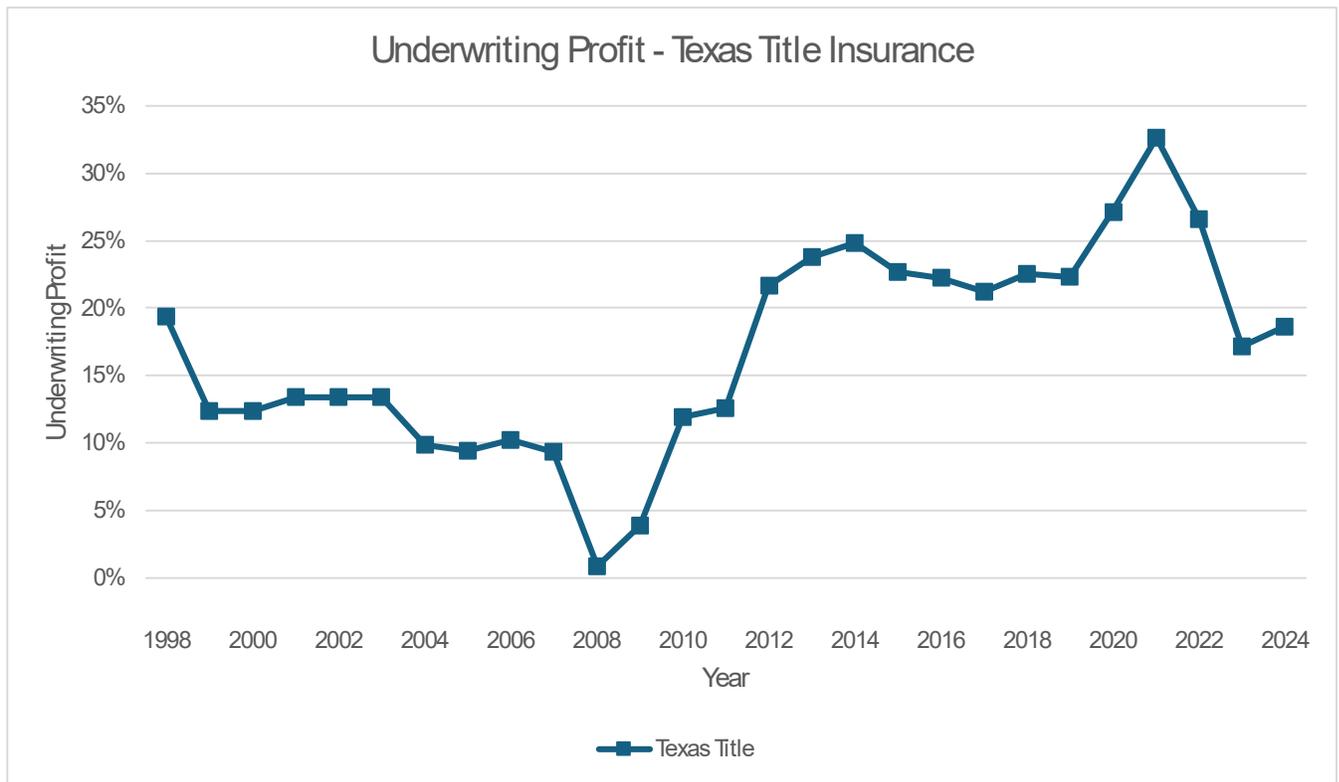
Enclosed as Exhibit AIS-3 is a comparison of the historical underwriting profit values for

- Texas title insurance
- Texas property casualty insurance
- Countrywide property casualty insurance
- Countrywide homeowners insurance

Texas title insurance has been significantly more profitable than property casualty insurance. In fact, Texas title insurance has had a positive underwriting profit every year from 1998 to 2024, a span of 27 years, as seen in the following graph.

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<sup>4</sup> This is the average of the WACC (Weighted Average Cost of Capital) shown.



Even during 2023 and 2024, which the title insurance industry had alleged would be adverse years, title insurance profits in Texas were very high, with an underwriting profit ratio in both years of more than 15%. While 2023 and 2024 were somewhat less profitable than during the astonishing profitable string of eleven years from 2012 to 2022 where the profit exceeded 20% every year, 2023 and 2024 were still very profitable for Texas title insurance.

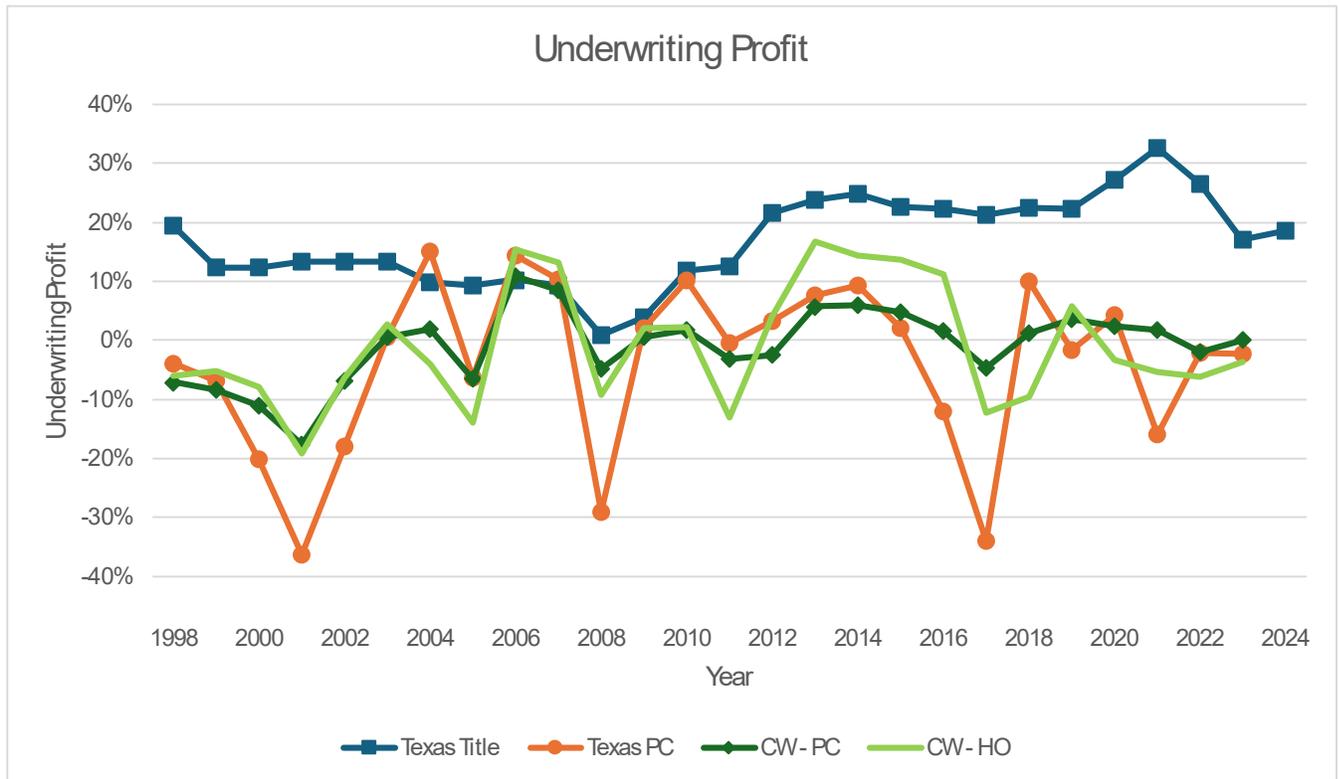
No property casualty insurance line of business has had such an impressive string of positive underwriting profits over that 27 year period.

Texas title insurance has a lower variability in underwriting results, as measured by standard deviation,<sup>5</sup> than either Texas property casualty insurance or Countrywide homeowners insurance. Countrywide all lines of property casualty insurance has had a slightly lower standard deviation due to the smoothing impact of diversification from including every state and every line of insurance. However, what may be considered to be a reasonable low range of Texas title insurance profit of 9.3% based on the average less one standard deviation is a higher profit than a reasonable high range of Countrywide property casualty insurance of 5.4% based on the average plus one standard deviation.

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<sup>5</sup> Standard deviation is commonly used as a measure of risk.

It is clear that Texas title insurance is less risky than the average line of property casualty insurance business. This can be seen clearly from the following graph of underwriting profit values, which visibly shows Texas title insurance underwriting profits have been higher and less variable than for property casualty insurance.



Taking these considerations into account, we believe that the highest reasonable cost of capital to use is 12%. However, we believe a lower cost of capital in the range of 10% would also be reasonable and justified.

The next step is to convert the cost of capital into an underwriting profit provision. Using a cost of capital in the range of 11% to 11.5% gives an indicated underwriting profit provisions of about 7%.

For our rate calculation, we used a 7% underwriting profit provision.

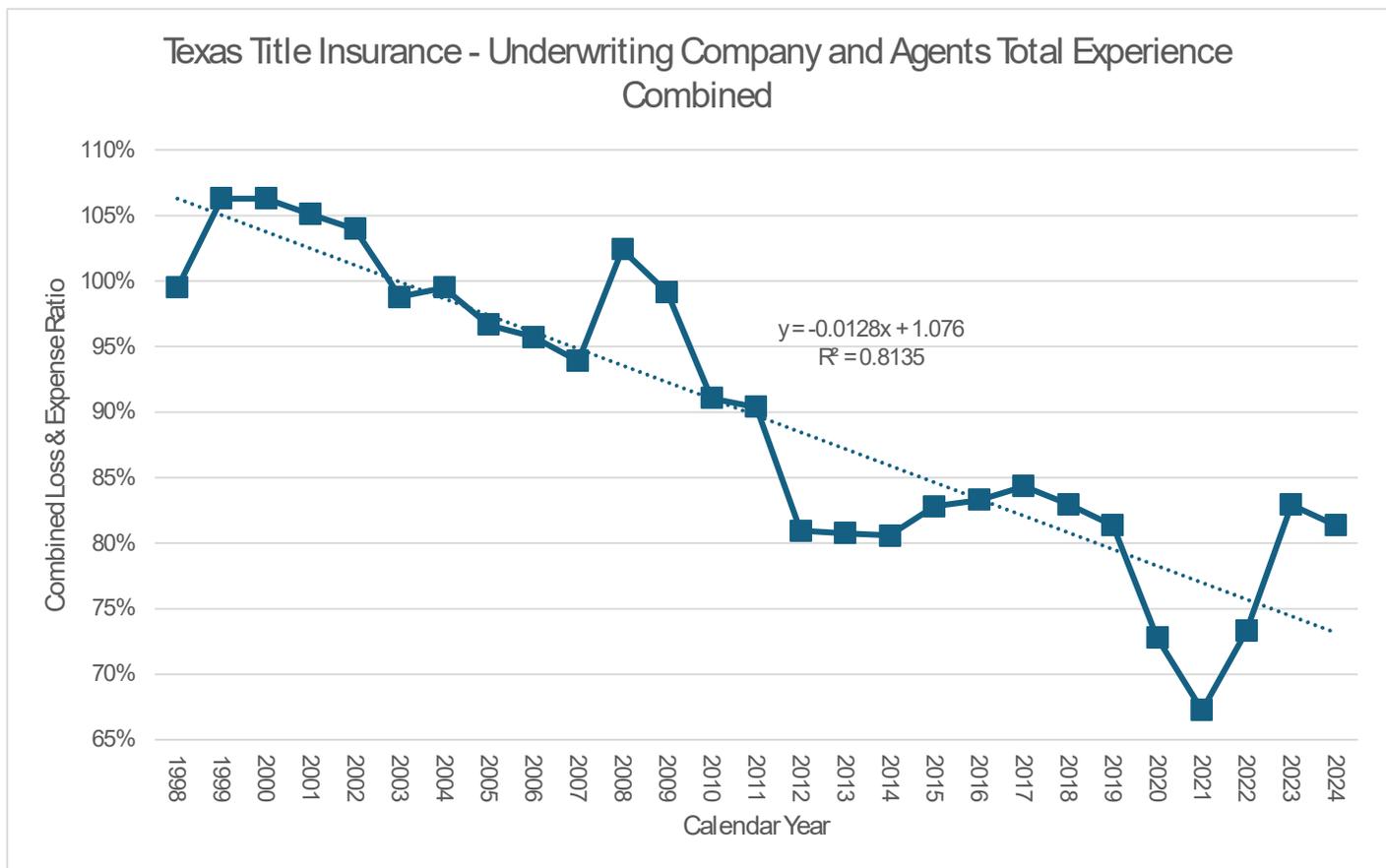
## 5. Historical Experience Period

We used historical experience periods of 5, 10, 15 and 20 years, all ending in 2024.

Our conclusion is that time periods of 10 years and 15 years ending in 2024 are fair to both policyholders and the title insurance industry, give actuarially sound results and are reasonable to use.

In selecting an experience period, we considered the tradeoff between responsiveness and stability. A shorter period could be more responsive to current conditions. However, if the period is too short, it may not represent a full spectrum of conditions and could cause instability in rates. We believe the 10 year and 15 year periods strike a reasonable balance between responsiveness and stability, and represents a reasonable sample of economic conditions that could prevail during the prospective rate period, which based on past experience could last for several years.

In concluding that a time period longer than 15 years would not be reasonable to use, we considered the long term downward trend in the combined loss plus expense ratio for Texas title insurance, as shown in the following graph.



As can be seen, during the period from 1998 to 2024, there has been a long term statistically significant downward trend in the combined loss & expense ratio.<sup>6</sup> The experience appears to have generally flattened out and stabilized from 2012 to 2024, a period of 13 years. Based on this, it is reasonable and appropriate to base the rate calculation on data from the most recent 10 to 15 years.

## 6. Conclusion

In summary, based upon our analysis, the indicated overall rate change for Texas Title Insurance is a decrease in the range of -10.4% to -18.8%. The mid-point of the four indicated rate decreases is -14.5%, which is an actuarially sound rate decrease and represents a reasonable balance between the interests of the title insurance industry and Texas policyholders.

In my professional opinion, the rate decrease should be in the range from that derived from the 10-year and 15-year historical periods, which is -15.2% to -13.8%, and has a mid-point of -14.5%. If a decision is made to be very conservative and favorable to the title insurance industry, the rate decrease should still be at least -10.4%. Furthermore, Texas title insurance rates should be evaluated more frequently than has been the situation in the past. This will assist in keeping rates at a level than are neither excessive nor inadequate. The maximum time interval between Texas title insurance rate reviews should be no more than two years.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Allan I. Schwartz  
FCAS,MAAA,ARE,AIC  
APA,AU,AIAF,ARM,API,ACS,CRRA  
President

Enclosures

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<sup>6</sup> The T-statistic associated with the slope is -10, indicating essentially 100% probability of a statistically significant downward trend.

Texas Title Insurance - Underwriting Company and Agents Total Experience

Summary Of Loss & Expense Ratios

Calendar Year	Adjusted Gross Title Income	Adjusted Retained Premiums	On-Level Factor	On-Level Adjusted Retained Premium	Additional Unearned Premium	Adjusted Expense <sup>1</sup>	Expense Included In Rate	Loss & LAE	On-Level Expense Ratio	On-Level Loss & LAE Ratio
	(1)	(2)	(3)	(4)=(2)*(3)	(5)	(6)	(7)=(5)+(6)*(2)/(1)	(8)	(9) = (7)/(3)	(10) = (8)/(4)
1998	957,476,209	919,549,495	0.809	744,138,463	3,574,018	750,833,732	723,964,045	16,509,731	97.3%	2.2%
1999	981,629,994	944,059,272	0.824	777,587,134	8,927,714	829,063,591	805,608,636	21,140,434	103.6%	2.7%
2000	965,019,423	928,271,781	0.824	764,583,555	4,193,778	820,619,695	792,974,747	19,842,088	103.7%	2.6%
2001	1,130,461,715	1,088,158,258	0.824	896,276,205	7,045,092	952,595,491	923,741,107	18,335,657	103.1%	2.0%
2002	1,309,391,128	1,267,499,201	0.832	1,054,837,588	8,878,506	1,092,305,208	1,065,837,756	31,096,918	101.0%	2.9%
2003	1,583,352,486	1,535,651,202	0.877	1,346,047,003	20,833,908	1,308,125,967	1,288,833,068	40,870,014	95.7%	3.0%
2004	1,472,984,083	1,432,520,476	0.906	1,297,283,850	24,143,714	1,260,253,739	1,249,165,535	41,479,307	96.3%	3.2%
2005	1,531,594,630	1,489,421,947	0.937	1,396,158,805	18,484,082	1,318,117,758	1,300,414,949	49,224,084	93.1%	3.5%
2006	1,693,222,086	1,645,473,245	0.937	1,542,438,639	11,502,725	1,458,729,508	1,428,777,649	47,719,447	92.6%	3.1%
2007	1,613,149,613	1,561,206,017	0.966	1,508,151,367	12,551,994	1,396,594,294	1,364,445,650	51,647,343	90.5%	3.4%
2008	1,231,859,074	1,186,600,336	0.968	1,149,046,970	-4,283,461	1,168,441,684	1,121,250,836	55,226,701	97.6%	4.8%
2009	1,062,325,934	1,013,798,824	0.968	981,714,256	-18,186,359	1,002,378,417	937,359,271	35,639,008	95.5%	3.6%
2010	1,101,921,324	1,057,770,573	0.968	1,024,294,393	-11,471,165	941,079,171	892,528,139	40,018,351	87.1%	3.9%
2011	1,159,122,044	1,123,156,521	0.968	1,087,611,016	-5,899,805	959,720,307	924,842,805	58,064,437	85.0%	5.3%
2012	1,468,967,729	1,429,904,344	0.968	1,384,650,925	1,500,493	1,115,887,133	1,088,211,134	32,209,248	78.6%	2.3%
2013	1,746,679,174	1,690,315,410	0.945	1,596,929,470	10,090,537	1,280,082,525	1,249,358,356	39,906,444	78.2%	2.5%
2014	1,772,069,471	1,708,706,132	0.933	1,594,250,681	-22,601,407	1,320,571,845	1,250,259,608	33,991,728	78.4%	2.1%
2015	1,960,377,130	1,902,011,015	0.933	1,774,607,288	23,228,575	1,455,372,166	1,434,219,888	34,869,621	80.8%	2.0%
2016	2,088,078,378	2,030,861,451	0.933	1,894,826,846	18,596,511	1,564,922,066	1,539,628,501	38,102,470	81.3%	2.0%
2017	2,111,486,189	2,050,197,611	0.933	1,912,867,799	13,272,179	1,609,525,914	1,574,315,759	39,006,846	82.3%	2.0%
2018	2,218,541,135	2,153,058,063	0.933	2,008,838,277	14,488,640	1,658,933,251	1,622,516,414	43,507,501	80.8%	2.2%
2019	2,337,278,585	2,268,426,680	0.954	2,164,718,222	15,956,856	1,747,256,301	1,709,792,755	50,651,643	79.0%	2.3%
2020	2,780,024,265	2,689,247,689	1.000	2,689,247,689	28,430,365	1,954,548,735	1,916,162,034	40,209,441	71.3%	1.5%
2021	3,818,427,267	3,687,118,037	1.000	3,687,118,037	62,837,349	2,469,359,551	2,442,971,229	35,813,839	66.3%	1.0%
2022	3,490,847,625	3,384,487,812	1.000	3,384,487,812	44,267,563	2,464,342,771	2,428,756,895	51,874,075	71.8%	1.5%
2023	2,359,953,969	2,297,138,928	1.000	2,297,138,928	-2,323,336	1,900,379,944	1,845,219,711	58,625,316	80.3%	2.6%
2024	2,540,349,083	2,454,724,861	1.000	2,454,724,861	2,397,600	1,985,472,916	1,918,439,573	78,656,425	78.2%	3.2%
5 Years Ex Max & Min	8,811,220,973	8,528,460,362		8,528,460,362	75,095,528	6,404,364,422	6,263,358,502	170,739,941	73.4%	2.0%
10 Years Ex Max & Min	19,775,450,170	19,179,956,499		18,668,589,923	145,042,774	14,731,228,150	14,414,735,770	396,496,492	77.2%	2.1%
5 Years Total	14,989,602,209	14,512,717,327		14,512,717,327	135,609,541	10,774,103,917	10,551,549,441	265,179,096	72.7%	1.8%
10 Years Total	25,705,363,626	24,917,272,147		24,268,575,759	221,152,302	18,810,113,615	18,432,022,758	471,317,177	76.0%	1.9%
15 Years Total	32,954,123,368	31,927,125,127		30,956,312,244	192,770,955	24,427,454,596	23,837,222,799	675,507,385	77.0%	2.2%
20 Years Total	40,086,274,705	38,823,625,496		37,533,822,281	212,839,936	30,771,716,257	29,989,471,154	914,963,968	79.9%	2.4%
All Years	48,486,589,743	46,939,335,181		44,414,576,079	290,436,666	37,785,513,680	36,839,596,048	1,104,238,117	82.9%	2.5%

Underwriting Company Experience

Summary Of Loss & Expense Ratios

Calendar Year	Adjusted Gross Title Income	Adjusted Retained Premiums	On-Level Factor	On-Level Adjusted Retained Premium	Additional Unearned Premium	Adjusted Expense <sup>1</sup>	Expense Included In Rate	Loss & LAE	On-Level Expense Ratio	On-Level Loss & LAE Ratio
	(1)	(2)	(3)	(4)=(2)*(3)	(5)	(6)	(7)=(5)+(6)*(2)/(1)	(8)	(9) = (7)/(3)	(10) = (8)/(4)
1998	161,352,746	157,204,201	0.809	127,216,309	3,574,018	84,517,189	85,918,183	14,943,440	67.5%	11.7%
1999	186,043,147	181,581,877	0.824	149,562,359	8,927,714	120,202,343	126,247,634	18,770,606	84.4%	12.6%
2000	167,569,170	163,914,407	0.824	135,010,309	4,193,778	112,538,576	114,277,834	17,929,279	84.6%	13.3%
2001	171,526,134	167,419,757	0.824	137,897,538	7,045,092	128,680,429	132,644,881	16,237,440	96.2%	11.8%
2002	191,174,671	187,197,154	0.832	155,789,127	8,878,506	128,995,440	135,190,110	29,527,514	86.8%	19.0%
2003	243,937,898	240,889,576	0.877	211,147,357	20,833,908	167,122,696	185,868,188	38,634,987	88.0%	18.3%
2004	262,158,664	258,223,493	0.906	233,845,989	24,143,714	183,913,564	205,296,617	38,220,749	87.8%	16.3%
2005	265,114,130	257,173,280	0.937	241,069,859	18,484,082	191,330,809	204,084,041	42,472,425	84.7%	17.6%
2006	281,783,217	276,653,461	0.937	259,330,250	11,502,725	216,203,275	223,770,102	43,538,927	86.3%	16.8%
2007	258,627,773	247,102,879	0.966	238,705,552	12,551,994	205,578,509	208,969,575	40,232,513	87.5%	16.9%
2008	196,583,181	188,949,375	0.968	182,969,531	(4,283,461)	177,873,497	166,682,773	38,765,768	91.1%	21.2%
2009	168,110,602	152,796,218	0.968	147,960,544	(18,186,359)	177,974,934	143,575,579	33,541,313	97.0%	22.7%
2010	175,230,880	161,134,619	0.968	156,035,052	(11,471,165)	136,606,252	114,145,943	37,811,090	73.2%	24.2%
2011	184,557,763	174,372,312	0.968	168,853,801	(5,899,805)	124,942,747	112,147,549	55,730,084	66.4%	33.0%
2012	223,846,557	215,105,633	0.968	208,297,999	1,500,493	136,180,586	132,363,400	28,028,121	63.5%	13.5%
2013	270,836,545	259,775,028	0.945	245,423,070	10,090,537	149,956,041	153,922,067	37,876,813	62.7%	15.4%
2014	286,066,639	277,631,736	0.933	259,034,937	(22,601,407)	147,448,742	120,499,691	31,586,849	46.5%	12.2%
2015	317,954,941	311,917,695	0.933	291,024,295	23,228,575	154,466,448	174,762,054	32,644,416	60.1%	11.2%
2016	340,009,926	333,691,419	0.933	311,339,535	18,596,511	159,078,830	174,719,131	33,120,651	56.1%	10.6%
2017	340,560,902	334,939,667	0.933	312,504,171	13,272,179	141,448,362	152,385,821	37,140,181	48.8%	11.9%
2018	370,102,734	364,170,519	0.933	339,777,032	14,488,640	156,911,097	168,884,678	39,293,988	49.7%	11.6%
2019	372,846,081	366,686,600	0.954	349,922,336	15,956,856	152,083,667	165,528,075	46,616,584	47.3%	13.3%
2020	430,297,407	424,517,833	1.000	424,517,833	28,430,365	170,837,077	196,972,830	34,949,059	46.4%	8.2%
2021	593,098,007	587,769,661	1.000	587,769,661	62,837,349	240,296,730	300,975,272	28,763,766	51.2%	4.9%
2022	589,877,250	586,575,827	1.000	586,575,827	44,267,563	257,062,422	299,891,259	46,107,098	51.1%	7.9%
2023	387,748,166	383,484,298	1.000	383,484,298	-2,323,336	191,630,607	187,200,007	53,920,407	48.8%	14.1%
2024	416,801,281	410,714,186	1.000	410,714,186	2,397,600	215,951,818	215,195,591	73,964,840	52.4%	18.0%
5 Years Total	2,417,822,111	2,393,061,805		2,393,061,805	135,609,541	1,075,778,654	1,200,234,959	237,705,170	50.2%	9.9%
10 Years Total	4,159,296,695	4,104,467,705		3,997,629,174	221,152,302	1,839,767,058	2,036,514,717	426,520,990	50.9%	10.7%
15 Years Total	5,299,835,079	5,192,487,033		5,035,274,033	192,770,955	2,534,901,426	2,669,593,368	617,553,947	53.0%	12.3%
20 Years Total	6,470,053,982	6,315,162,246		6,105,309,769	212,839,936	3,503,862,450	3,616,675,438	816,104,893	59.2%	13.4%
All Years	7,853,816,412	7,671,592,711		7,255,778,757	290,436,666	4,429,832,687	4,602,118,884	990,368,908	63.4%	13.6%
20 Years to 2022	6,171,601,097	6,020,076,831		5,756,104,631	257,743,294	3,447,316,285	3,605,444,644	765,075,382	62.6%	13.3%

All Agent Experience - Independent Agents, Affiliated Agents & Direct Operations Experience

Summary Of Loss & Expense Ratios

Calendar Year	Adjusted Gross Title Income (1)	Adjusted Retained Premiums (2)	On-Level Factor (3)	On-Level Adjusted Retained Premium (4)=(2)*(3)	Additional Unearned Premium (5)	Adjusted Expense <sup>1</sup> (6)	Expense Included In Rate (7)=(5)+(6)*(2)/(1)	Loss & LAE (8)	On-Level Expense Ratio (9) = (7)/(4)	On-Level Loss & LAE Ratio (10) = (8)/(4)
1998	796,123,463	762,345,294	0.809	616,922,154		666,316,543	638,045,862	1,566,291	103.4%	0.3%
1999	795,586,847	762,477,395	0.824	628,024,775		708,861,248	679,361,002	2,369,828	108.2%	0.4%
2000	797,450,253	764,357,374	0.824	629,573,246		708,081,119	678,696,913	1,912,809	107.8%	0.3%
2001	958,935,581	920,738,501	0.824	758,378,667		823,915,062	791,096,226	2,098,217	104.3%	0.3%
2002	1,118,216,457	1,080,302,047	0.832	899,048,461		963,309,768	930,647,647	1,569,404	103.5%	0.2%
2003	1,339,414,588	1,294,761,626	0.877	1,134,899,646		1,141,003,271	1,102,964,880	2,235,027	97.2%	0.2%
2004	1,210,825,419	1,174,296,983	0.906	1,063,437,861		1,076,340,175	1,043,868,918	3,258,558	98.2%	0.3%
2005	1,266,480,500	1,232,248,667	0.937	1,155,088,946		1,126,786,949	1,096,330,908	6,751,659	94.9%	0.6%
2006	1,411,438,869	1,368,819,784	0.937	1,283,108,389		1,242,526,233	1,205,007,547	4,180,520	93.9%	0.3%
2007	1,354,521,840	1,314,103,138	0.966	1,269,445,815		1,191,015,785	1,155,476,076	11,414,830	91.0%	0.9%
2008	1,035,275,893	997,650,961	0.968	966,077,439		990,568,187	954,568,063	16,460,933	98.8%	1.7%
2009	894,215,332	861,002,606	0.968	833,753,712		824,403,483	793,783,692	2,097,695	95.2%	0.3%
2010	926,690,444	896,635,954	0.968	868,259,341		804,472,919	778,382,196	2,207,261	89.6%	0.3%
2011	974,564,281	948,784,209	0.968	918,757,215		834,777,560	812,695,255	2,334,353	88.5%	0.3%
2012	1,245,121,172	1,214,798,711	0.968	1,176,352,926		979,706,547	955,847,734	4,181,127	81.3%	0.4%
2013	1,475,842,629	1,430,540,382	0.945	1,351,506,400		1,130,126,484	1,095,436,289	2,029,631	81.1%	0.2%
2014	1,486,002,832	1,431,074,396	0.933	1,335,215,744		1,173,123,103	1,129,759,917	2,404,879	84.6%	0.2%
2015	1,642,422,189	1,590,093,320	0.933	1,483,582,993		1,300,905,718	1,259,457,834	2,225,205	84.9%	0.1%
2016	1,748,068,452	1,697,170,032	0.933	1,583,487,311		1,405,843,236	1,364,909,370	4,981,819	86.2%	0.3%
2017	1,770,925,287	1,715,257,944	0.933	1,600,363,628		1,468,077,552	1,421,929,938	1,866,665	88.9%	0.1%
2018	1,848,438,401	1,788,887,544	0.933	1,669,061,245		1,502,022,154	1,453,631,736	4,213,513	87.1%	0.3%
2019	1,964,432,504	1,901,740,080	0.954	1,814,795,886		1,595,172,634	1,544,264,680	4,035,059	85.1%	0.2%
2020	2,349,726,858	2,264,729,856	1.000	2,264,729,856		1,783,711,658	1,719,189,204	5,260,382	75.9%	0.2%
2021	3,225,329,260	3,099,348,376	1.000	3,099,348,376		2,229,062,821	2,141,995,957	7,050,073	69.1%	0.2%
2022	2,900,970,375	2,797,911,985	1.000	2,797,911,985		2,207,280,349	2,128,865,636	5,766,977	76.1%	0.2%
2023	1,972,205,803	1,913,654,630	1.000	1,913,654,630		1,708,749,337	1,658,019,703	4,704,909	86.6%	0.2%
2024	2,123,547,802	2,044,010,675	1.000	2,044,010,675		1,769,521,098	1,703,243,982	4,691,585	83.3%	0.2%
5 Years Total	12,288,897,398	11,852,617,841		11,645,847,348		9,317,249,616	8,987,947,213	26,326,004	77.2%	0.2%
10 Years Total	20,412,158,787	19,716,753,915		19,000,003,424		15,795,325,709	15,259,440,561	39,834,203	80.3%	0.2%
15 Years Total	25,488,025,909	24,635,626,356		23,763,204,057		20,229,254,405	19,554,717,500	67,115,572	82.3%	0.3%
20 Years Total	32,070,707,125	31,019,856,554		29,669,184,714		26,006,926,818	25,158,365,829	94,956,166	84.8%	0.3%
All Years	40,632,773,331	39,267,742,470		37,158,797,322		33,355,680,993	32,237,477,164	113,869,209	86.8%	0.3%
20 Years to 2022	32,070,707,125	31,019,856,554		29,669,184,714		26,006,926,818	25,158,365,829	94,956,166	84.8%	0.3%

**August 2025**

**Maximum Permitted Rate of Return**

**Yields and FIT rates For Investment Income Calculation**

<b>Maximum Permitted Rate of Return:</b>	<b>10.38%</b>
<b>Risk Free Rate:</b>	<b>4.38%</b>

	<b>Currently Available Yield</b>	<b>FIT Rate</b>
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*Annual Statement, Sch D, Part 1A, Sec. 1*

<b>[1]</b>	US Government Bonds		
<b>[1A]</b>	A. Short	4.38%	21.000%
<b>[1B]</b>	B. Intermediate	4.34%	21.000%
<b>[1C]</b>	C. Long	4.89%	21.000%
<b>[2]</b>	Other Taxable Bonds		
<b>[2A]</b>	A. Short	4.27%	21.000%
<b>[2B]</b>	B. Intermediate	4.87%	21.000%
<b>[2C]</b>	C. Long	5.49%	21.000%
<b>[3]</b>	Tax Exempt Bonds		
<b>[3A]</b>	A. Short	3.37%	5.250%
<b>[3B]</b>	B. Intermediate	3.59%	5.250%
<b>[3C]</b>	C. Long	4.66%	5.250%

*A.S. Pg 2, Assets Column, Lines 2.1 to 9*

<b>[4]</b>	Common Stocks		
<b>[4A]</b>	Dividend	1.94%	13.125%
<b>[4B]</b>	Capital Gain	10.45%	21.000%
<b>[5]*</b>	Preferred Stocks	6.91%	13.125%
<b>[6]</b>	Mortgage Loans	5.49%	21.000%
<b>[7]</b>	Real Estate	6.38%	21.000%
<b>[8]</b>	Cash	4.38%	21.000%
<b>[9]</b>	Others		
<b>[9A]</b>	Dividend	1.94%	13.125%
<b>[9B]</b>	Capital Gain	10.45%	21.000%
<b>[10]</b>	Investment Expenses		21.000%

**Note (\*):** This rate utilizes the Moody's A rated public utility preferred stocks published in CDx3Investor which acquired ePreferred in August, 2014.

**Footnotes for Lines:**

- [1]: the sum of AS Lines 1.7 & 2.7
- [1A], [2A], [3A]: Short refers to One Year or Less
- [1B], [2B], [3B]: Intermediate refers to Over 1 year through 10 years
- [1C], [2C], [3C]: Long refers to Over 10 years
- [2]: the sum of AS Lines 6.7, 7.7, 8.7, & 9.7 plus half of Line 5.7
- [3]: the sum of AS Lines 3.7, & 4.7 plus half of Line 5.7
- [4]: AS Line 2.2
- [4B]: Risk Free + 8% - Dividend
- [5]: AS Line 2.1
- [6]: the sum of AS Lines 3.1 & 3.2
- [7]: the sum of AS Lines 4.1, 4.2 & 4.3 : (Risk Free + 2%)
- [8]: AS Line 5, Cash part
- [9]: the sum of AS Lines 6, 7, 8 & 9
- [10]: AS Pg 11, Ln 25, Col 3

**INTERNAL RATE OF RETURN ANALYSIS  
STATE OF DELAWARE - 2025  
TABLE I: INPUTS, ASSUMPTIONS & OUTPUTS**

Section 1: Inputs & Assumptions		
(1)	Commissions *	5.40
(2)	Other Expenses	4.72
(2A)	Other Acquisitions *	1.56
(2B)	General Expenses *	2.87
(2C)	Other Tax **	0.29
(3)	State Premium Taxes & Uncollectible Premium	
(3A)	Tax1 - Premium Tax **	2.00
(3B)	Uncollectible Premium **	4.07
(3C)	Tax3 - Workers Compensation Fund **	2.00
(4)	Premium Discount ***	7.94
(5)	Deviations	0.00
(6)	Dividends to Policyholders	0.00
(7)	Premium Written	1,000,000
Investment Income		
(8A)	Pre-Tax Return on Assets	6.99
(8B)	Investment Income Tax Rate	1.24
(8C)	Post-Tax Return on Assets	5.76
(10)	Reserve to Surplus Ratio	1.88
(11)	Internal Rate of Return (Cost of Capital)	11.83
* Applies to standard premium at DCRB level (before premium discount)		
** Applies to net premium at company level (after deviations and premium discounts)		
*** Applies to standard premium at company level (after deviations)		

Section 2: Outputs		
(1)	Loss Ratio - including loss adjustment expense & loss based assessments	77.17
(2)	Profit & Contingencies	-3.30

<b>Cost of Capital for Publicly Traded Companies</b>							
<b>Source</b>	<b>Method</b>	<b>Current Yield (12/5/24)</b>	<b>Equity Risk Premium</b>	<b>Cost of Equity</b>		<b>WACC</b>	
Kroll	CAPM			7.3%		6.9%	
Kroll	CAPM + Size Premium			7.7%		7.2%	
Kroll	Build-Up			8.2%		7.6%	
Kroll	Fama-French 5-factor			8.3%		7.7%	
Kroll	DCF (1-stage)			8.0%		7.4%	
Kroll	DCF (3-stage)			10.8%		9.8%	
Damodaran Online	Implied Premium			7.54%		6.97%	
<b>Liability</b>				<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
Zanjani	Risk Premium over T-Bill	4.61%	8.32%	8.98%	10.47%	8.49%	9.84%
Zanjani	Risk Premium over T-Note	4.14%	6.66%	7.64%	8.83%	7.28%	8.36%
Zanjani	Risk Premium over Aaa Bond	5.61%	4.56%	7.99%	9.03%	7.60%	8.54%
Zanjani	Risk Premium over Baa Bond	4.95%	5.80%	8.01%	8.82%	7.62%	8.35%
<b>Physical Damage</b>							
Zanjani	Risk Premium over T-Bill	4.61%	8.32%	9.02%	10.47%	8.53%	9.84%
Zanjani	Risk Premium over T-Note	4.14%	6.66%	7.67%	8.84%	7.31%	8.36%
Zanjani	Risk Premium over Aaa Bond	5.61%	4.56%	8.02%	9.04%	7.63%	8.55%
Zanjani	Risk Premium over Baa Bond	4.95%	5.80%	8.03%	8.83%	7.64%	8.36%

I have also shown the current yield and equity risk premium elements for each of my own estimates to facilitate reconstruction. Other parameters I used were calculated as described above: 1) the weighted average beta (for the North Carolina Private Passenger Automobile Liability industry, the low estimate was 0.5250 and the high one was 0.7043; for Physical Damage, the figures were 0.5297 and .7050, respectively), 2) the cost of debt (4.01%), and 3) the percentage of debt in the capital structure (for the North Carolina Private Passenger Automobile Liability industry, this was 9.77%).

To illustrate, the higher cost of equity for my "Risk Premium over T-Bill" method for Liability is:

$$4.61\% + 0.7043 \times 8.32\% = 10.47\%,$$

where 4.61% is the 3-month average T-Bill yield on 12/5/2024 (measured as the average of the yields on 12/5, 11/5, and 10/5---consistent with the yield averaging method in other parts of the filing), 0.7043 is the 3-year weighted average beta for the publicly traded holding companies of carriers serving the North Carolina Private Passenger Automobile Liability market, and 8.32% is the average long-horizon risk premium of the equity market over the T-Bill yield. The corresponding WACC is:

$$(1 - .0977) \times 10.47\% + .0977 \times 4.01\% = 9.84\%.$$

Note that, the estimates for capital structure and the cost of debt differ across sources, so the relationship between the cost of equity and the WACC for Kroll and Damodaran Online will not follow the exact formula listed above.

Q: Do you believe any adjustments are necessary to the estimated cost of equity in the context of this filing?

# VII 000081

Section VII - Profit  
Subsection E - Cost of Capital  
7/1/2025

Section VII - E  
Exhibit 1

## Cost of Capital: Summary Exhibit

(1) Discounted Cash Flow	7.84%
(2) Capital Asset Pricing Model	12.54%
(3) Equity Capital Cost	10.19%
(4) Debt Capital Cost	4.95%
(5) Capital Structure	
(a) Equity Capital Share	87%
(b) Debt Capital Share	13%
(6) Weighted Average Cost of Capital (WACC)	9.53%

### Notes:

(1): Exhibit 2, Page 1

(2): Exhibit 3, Page 1

(3) = [ (1) + (2) ] / 2.0

(4): Average of three-horizons yields:

Short-Term = 5.21%, the average yield on 1-month Commercial Paper (line (1)' of Section VII-J, Exhibit 2, Page 3)

Intermediate-Term = 4.42%, the average yield on 5-year HQM yield (line (15) of Section VII-J, Exhibit 2, Page 3)

Long-Term = 5.23%, the average yield on 20-year industrial yield (Section VII-J, Exhibit 2, Page 2)

(5): Exhibit 4

(6) = [ (3) x (5a) ] + [ (4) x (5b) ]

**Comparison of Texas Title to Property Casualty Underwriting Profit**

Year	Underwriting Profit			
	Texas Title	Texas Property Casualty	Countrywide Property Casualty	Countrywide Homeowners
1998	19.4%	-3.9%	-7.1%	-6.0%
1999	12.4%	-6.9%	-8.4%	-5.2%
2000	12.4%	-20.2%	-11.0%	-7.8%
2001	13.4%	-36.3%	-17.6%	-19.1%
2002	13.4%	-17.9%	-6.8%	-6.3%
2003	13.4%	0.5%	0.6%	2.7%
2004	9.9%	15.1%	1.9%	-4.0%
2005	9.4%	-6.3%	-6.5%	-13.9%
2006	10.2%	14.3%	10.8%	15.3%
2007	9.3%	10.3%	8.5%	13.2%
2008	0.9%	-29.1%	-4.9%	-9.3%
2009	3.9%	2.1%	0.5%	2.0%
2010	11.9%	10.1%	1.7%	2.3%
2011	12.6%	-0.4%	-3.2%	-13.1%
2012	21.7%	3.2%	-2.4%	4.1%
2013	23.8%	7.7%	5.7%	16.8%
2014	24.8%	9.3%	5.9%	14.4%
2015	22.7%	2.0%	4.7%	13.7%
2016	22.3%	-12.0%	1.6%	11.2%
2017	21.2%	-33.9%	-4.7%	-12.2%
2018	22.5%	10.0%	1.3%	-9.5%
2019	22.3%	-1.7%	3.6%	5.7%
2020	27.1%	4.2%	2.4%	-3.3%
2021	32.7%	-16.0%	1.7%	-5.4%
2022	26.6%	-2.1%	-2.0%	-6.2%
2023	17.1%	-2.3%	0.0%	-3.7%
2024	18.6%			
Average	16.9%	-3.9%	-0.9%	-0.9%
Standard Deviation (S)	7.6%	14.3%	6.3%	10.2%
Average + SD	24.4%	10.4%	5.4%	9.3%
Average - SD	9.3%	-18.1%	-7.2%	-11.1%

**Texas title insurance underwriting profits have been higher and less variable than for property casualty insurance**

Source:

TITA 2024 Texas Title Rate Review & Analysis, Attachment 2 - Exhibit and Exhibit AIS-1.

Underwriting Profit = 100% - ( Loss Ratio + Expense Ratio ) Before On-Level

NAIC Report on Profitability by Line by State in 2023, 2022, 2012 & 2005