

**2024
Texas Title
Rate Analysis
& Overview -
Supplemental
Materials**

SUBMITTED BY
Texas Land Title Association
January 14, 2025

Introduction

The *2024 Texas Title Rate Analysis and Overview* was presented by the Texas Land Title Association to the Texas Department of Insurance on October 18, 2024. The items contained herein are a supplement to that 2024 resource book, and both are being submitted into the record for the January 21, 2025, Texas Title Rate Hearing.

If you have any questions, please contact me at 512-472-6593 or by e-mail at Leslie@tlta.com.

Leslie Midgley
Executive Vice President & CEO
Texas Land Title Association

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Updated
TTIGA Data

Note: The below report confirms TLTA’s October 22 hearing testimony that the 3rd quarter TTIGA report for title policies would show a continuing decline. The reported 284,697 policies are the lowest total since the same quarter of 2011. If we assume that the 4th quarter produces very similar policy volume to the 3rd quarter, then the total for 2024 will be much the same as, or even lower than, 2023.

Texas Title Insurance Guaranty Association
Title Guaranty/GARC Fees and Policies Third Quarter 2024 Report

Policies Reported

Year	1 st Q	2 nd Q	3 rd Q	4 th Q	Totals
2004	288,644	388,908	368,946	339,339	1,385,837
2005	312,800	393,331	407,882	358,790	1,472,803
2006	346,287	415,750	404,321	355,302	1,521,660
2007	325,214	366,145	340,542	283,709	1,315,610
2008	280,705	279,453	255,025	200,505	1,015,688
2009	212,453	266,830	254,483	233,221	966,987
2010	189,898	259,685	229,007	236,180	914,770
2011	191,988	230,458	242,042	230,523	895,011
2012	252,572	277,150	298,627	289,157	1,117,506
2013	274,085	339,953	321,053	264,311	1,199,402
2014 (GARC)	210,631	297,366	296,444	276,227	1,080,668
2015 (No Fee)					
2016	N/A	315,545	345,339	303,802	964,686
2017	271,656	338,974	322,629	301,431	1,234,690
2018 (GARC)	250,964	344,116	317,757	292,358	1,205,195
2019 (GF)	N/A	217,584	360,361	346,985	924,930
2020	324,342	409,986	507,231	481,515	1,723,074
2021	445,557	524,519	511,210	477,847	1,959,133
2022	394,047	435,916	381,096	266,472	1,477,531
2023	258,721	325,417	296,305	259,873	1,140,316
2024	250,682	308,749	284,697		

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Updated Real
Estate
Economic
Analysis
by David Tandy

Update to Real Estate Economic Analysis presented on October 22, 2024

Introduction

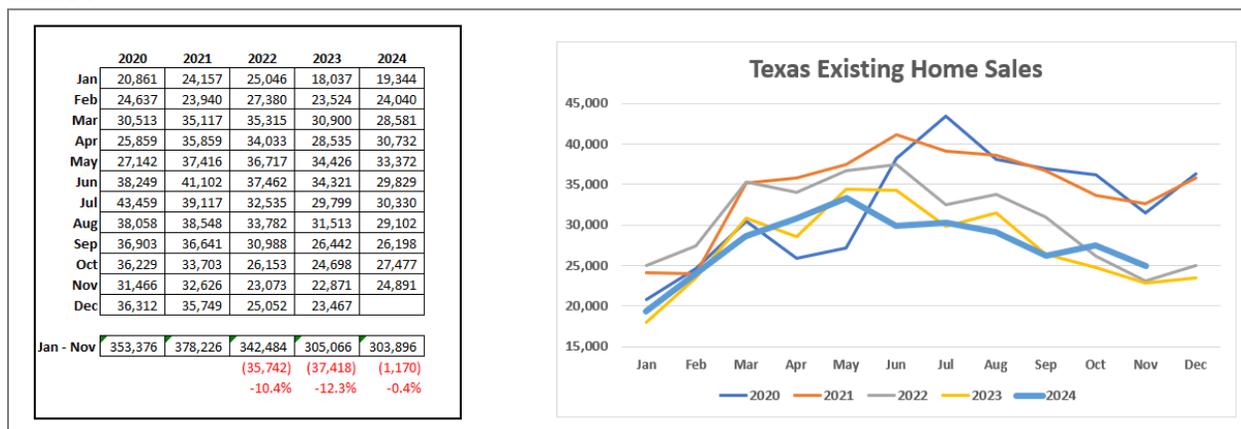
This update confirms the key factors to understand in analyzing current conditions and predicting the near future. There is an expectation based on conventional wisdom that a decrease in the Federal Reserve Funds Rate will result in lower mortgage rates. The Federal Reserve Board has recently decreased rates, yet mortgage rates have not decreased. Instead, mortgage rates track changes in the Federal Treasury debt rate. Certain factors, including concerns about inflation and continued U.S. deficit spending, are driving the increase in U.S. Federal Treasury debt. Moreover, the Federal Reserve Board has signaled that there will be minimal, if any, further rate decreases in the coming year. The continued high yield of 10-year treasury notes, combined with the “Lock-in-Effect” and continued housing affordability issues, portends a continued depressed and flat housing market in Texas.

Texas Existing Home Sales Continue to Decline

Sales of existing homes in Texas declined year-over-year through November for each year since 2021:

- 10.4% decline from 2021 to 2022
- 12.3% decline from 2022 to 2023
- 0.4% decline 2023 to 2024

Chart 1



Source: Texas A&M Real Estate Center

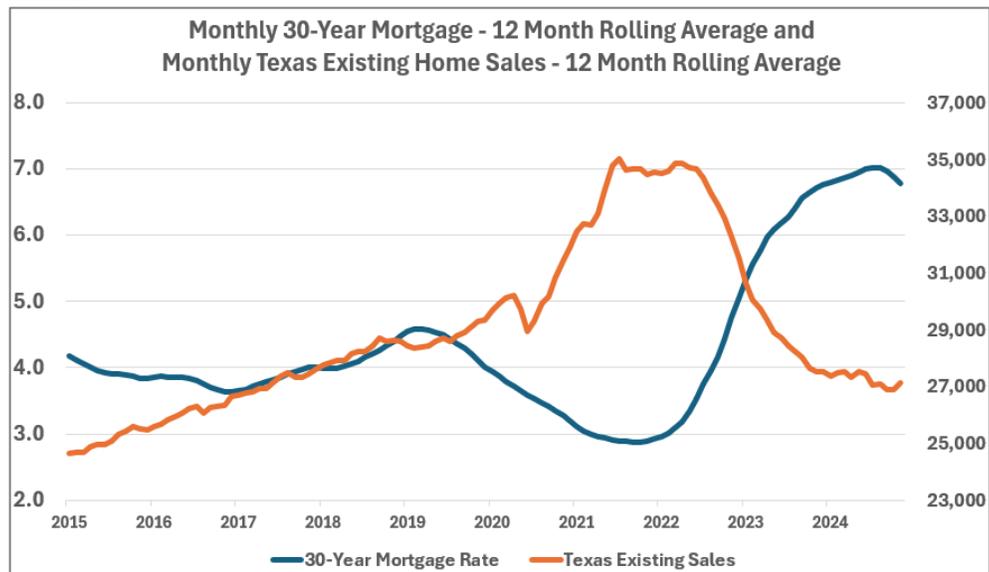
30-year Mortgage Interest Rates

A major reason for the decline in existing home sales is the increase in mortgage interest rates from sub 4% to the high 6% or low 7% range. Some news articles have focused on the recent decrease of the fed funds target rate expecting mortgage rates to decrease when they have instead increased. It is unfortunate that so many headlines have focused on the fed funds rate instead of 10-year treasuries, which much better determine mortgage rates.

There are many other news articles and government publications that note this fact, including by [Fannie Mae](#), [Brookings](#), and [Investopedia](#). ⁽¹⁾

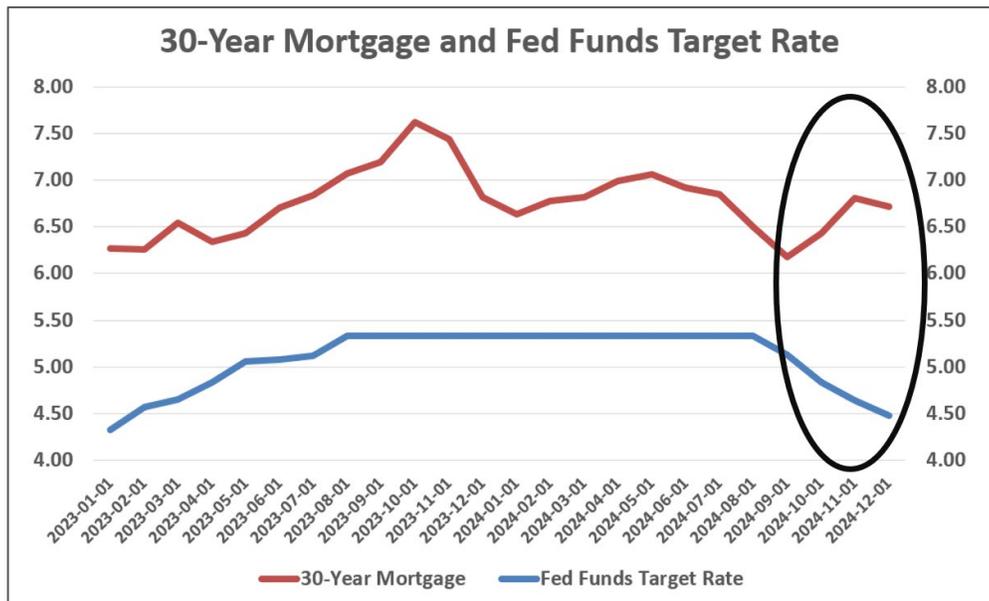
The four charts below show 1) how mortgage rates affect existing home sales, 2) how there is a loose or sometimes non-existent connection to the fed funds rate and 30-year mortgage rates, 3) how mortgage rates are closely connected to the 10-year treasury rate, and finally 4) a forecast for 2025 mortgage rates.

Chart 2



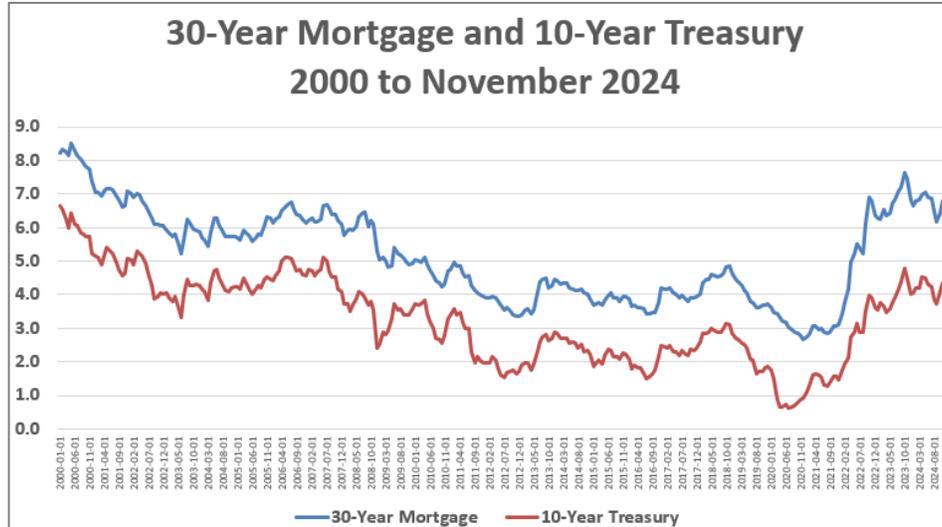
As mortgage rates increase past 4%, existing home sales decline.
 Source: Mortgage Daily News, Texas A&M Real Estate Center

Chart 3



Mortgage rates do not closely follow the changes in fed funds rate.
Note: Since the last action by the Fed in December, the mortgage rate has continued to increase as of 1/13/2025.
 Source: Federal Reserve Economic Data – St Louis FED

Chart 4



Mortgage rates are closely tied to the 10-Year Treasury
 Source: Federal Reserve Economic Data – St Louis FED

Chart 5

2025 Mortgage Rate Forecasts
 HousingWire has interpreted the Low, Average, High from company statements

	Low	Average	High
Redfin	6.2%	6.8%	7.2%
HousingWire	5.75%	6.6%	7.25%
Goldman Sachs	6%	6.5%	7%
MBA	6.4%	6.5%	6.6%
Fannie Mae	6.2%	6.45%	6.7%
Wells Fargo	6.3%	6.41%	6.65%
Bright MLS	6%	6.4%	6.8%
NAHB	6%	6.36%	6.7%
Realtor.com	6.2%	6.3%	6.4%
First American	6%	6.25%	6.5%
NAR	5.75%	6%	6.25%

Source: Company reports, HousingWire Interpretation

HOUSINGWIRE

Source: <https://www.housingwire.com/articles/2025-mortgage-rates-forecasts-already-wrong/> December 19, 2024

10-Year Treasury Notes

Since the 30-year mortgage follows the 10-year treasury note yield (and not the fed funds rate), what are the expectations of a significant decrease in the 10-year treasury note yield? For mortgage rates to decrease to 5% or less, treasury yields would have to decrease more than two hundred (200) basis points. Is that level of decrease reasonable to expect in 2025? To help answer these questions, here are some of the factors affecting Treasury yields:

1. Increased tariffs may cause inflation to increase, which will put pressure on Treasury yields – i.e., higher treasury bond rates.
2. Mass deportations may cause a labor shortage in critical areas affecting real estate, including labor supply for home construction and remodeling.
3. Enacting more tax cuts may stimulate growth, but it may also reduce tax revenue and cause deficits to increase. As discussed below, increased deficits raise the cost of borrowing for the United States- i.e., higher treasury bond rates.
4. The Treasury market is driven in part by investor expectations on future Federal Reserve monetary policy. If the Fed becomes concerned about inflation, they could reduce the number of rate cuts or even stop all cuts, which may cause investors who purchase U.S. bonds to require a higher return.
5. Recent economic data show surprising strength in the U.S. economy. Sticky inflation during a time of robust job growth and economic strength has paved the way for a “higher-for-longer” rate policy from the central bank. When short term rates are higher, then a long-term bond does not look as enticing to investors. So again, 10-year treasury yields must move higher to attract investors.
6. If investors expect higher inflation in the future, they will demand higher yields for 10-year treasuries.
7. The federal government’s fiscal policy has an impact on treasury bond pricing. If government debt is high, then interest rates on 10-year treasuries must rise to make purchasing government debt an attractive investment. If investors believe the government will continue to grow the U.S. debt, then they want a better return to offset that risk.

These and other reasons can cause Treasury yields to remain at or close to their current yield, if not higher. Deloitte forecasts **a repeat of 2024 for the next three years** for the 10-Year Treasury Note and 30-Year mortgage.

Chart 6

Financial markets												
% year over year unless mentioned otherwise	History							Forecast				
	2018	2019	2020	2021	2022	2023	2024f	2025	2026	2027	2028	2029
Yield on 10-year treasury note (percentage)	2.91	2.14	0.89	1.44	2.95	3.96	4.23	4.30	4.29	4.09	3.85	3.88
Interest rate on 30-year fixed rate mortgages (percentage)	4.54	3.94	3.11	2.96	5.33	6.80	6.69	6.37	6.69	6.39	5.84	5.85

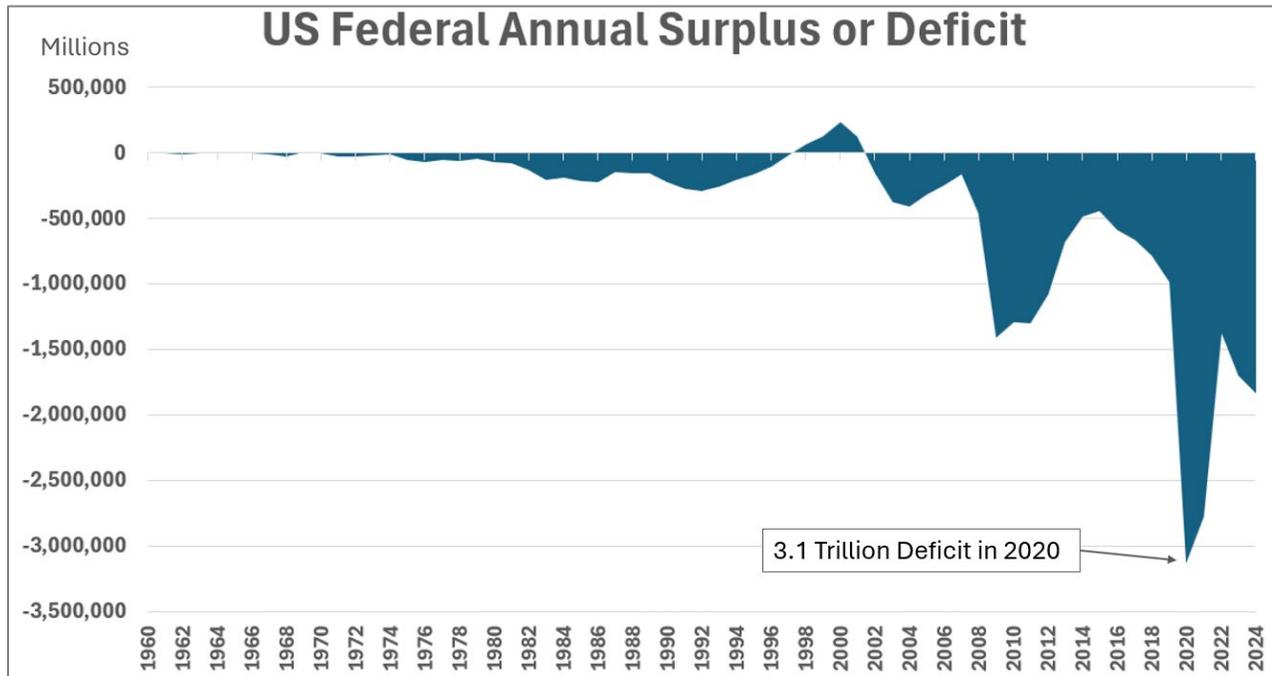
Source: Deloitte Insights

Source: United States Economic Forecast – Deloitte Global Economics Research Center
<https://www2.deloitte.com/us/en/insights/economy/us-economic-forecast/united-states-outlook-analysis.html>

U.S. Debt

As mentioned above, when investors see continued deficit spending that increases U.S. debt, they expect an increased return on long term U.S. debt instruments to offset the increased risk that comes with our large sovereign debt. As of late 2024, the U.S. has 36.2 Trillion in debt, an annual budget deficit of two (2) Trillion, annual interest on debt of one (1) Trillion, and a **total unfunded U.S. obligation (which includes Social Security and Medicare) of 222 Trillion.**⁽²⁾

Chart 7

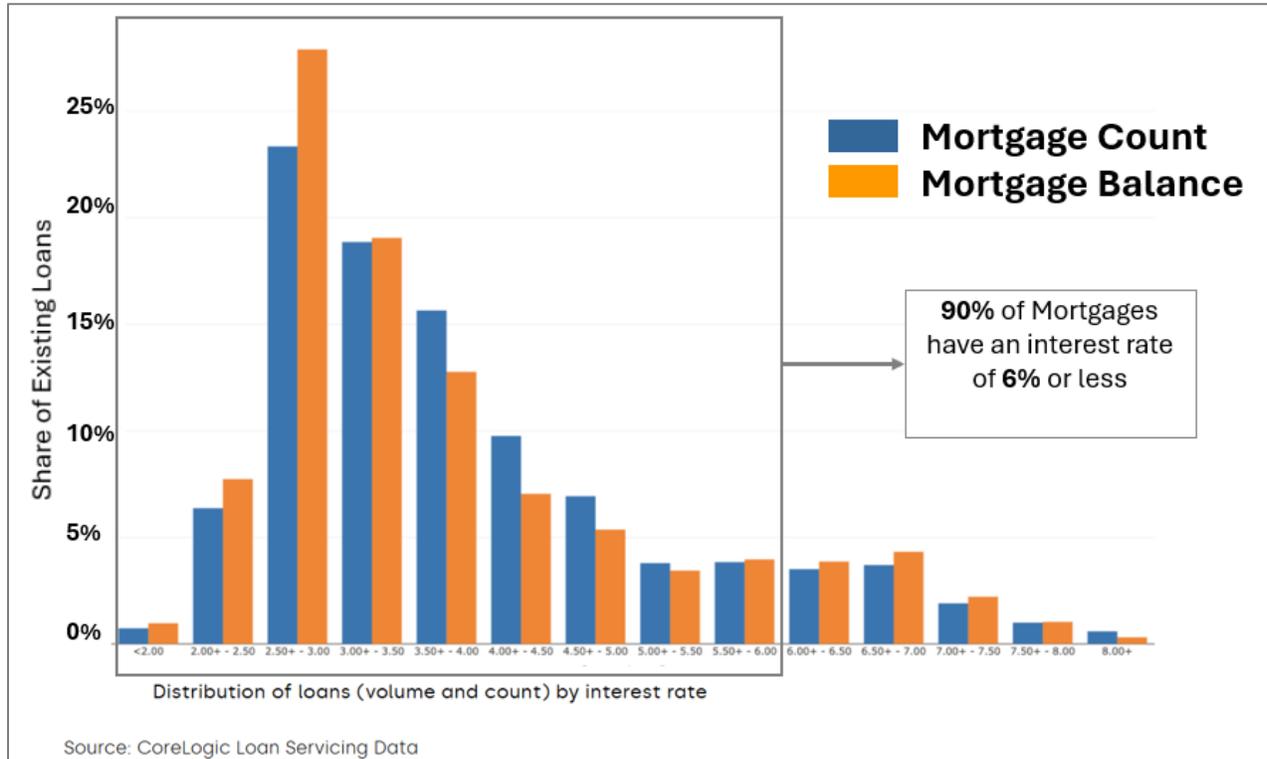


U.S. Treasury Bond Auctions finance deficit spending
Source: Federal Reserve Bank of St. Louis <https://fred.stlouisfed.org/>

Lock-in-Effect

There are fewer sales because of the lock-in-effect caused by very low mortgage rates over the last several years. ⁽³⁾ Homeowners are reluctant to give up their low rate. ⁽⁴⁾

Chart 8



Source: <https://www.corelogic.com/intelligence/homes-sales-down-no-recession/>

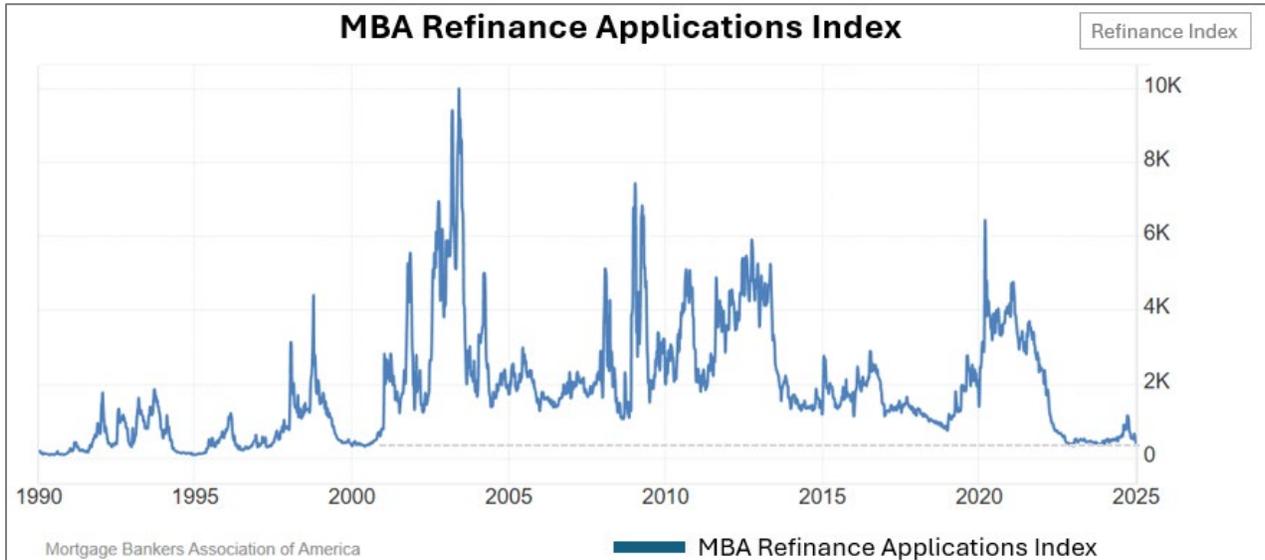
Last year, Bank of America warned that the lock-in-effect could last eight (8) years. ⁽⁵⁾

A recent survey from RedFin released this month shows additional evidence of the lock-in-effect. More than one-third (34%) of U.S. homeowners say they will **never** sell their home, and another 27% say they would not consider selling for at least 10 years. ⁽⁶⁾

Refinance Transactions

Refinance loan applications are at a 30-year low.

Chart 9



Minimal refinance loan activity will have a significant impact on Title Insurance revenues.

Source: Trading Economics - <https://tradingeconomics.com/united-states/mba-mortgage-refinance-index>

Will Buyers “Get Use To” a New Normal of 6% to 7% Mortgage Rates?

Will home buyers decide 6% and 7% mortgage rates are the new normal and stop sitting on the sidelines? So far that has not been the case. The following chart shows the mortgage purchase applications index four-week moving average. Fewer homebuyers are either willing or able to obtain loans for a home purchase as when rates were lower. Purchase money loans are at a twenty-five (25) year low even though the U.S. population has increased by fifty (50) million persons.

Chart 10



Source: Trading Economics - <https://tradingeconomics.com/united-states/mba-purchase-index>

Inflation

Regardless of whether inflation continues a gradual decline, plateaus above the 2% target, or resurges, the damage to the economy has been done. It will take a considerable amount of time to reach a new balance of consumer prices versus income. We can see the impact of inflation in:

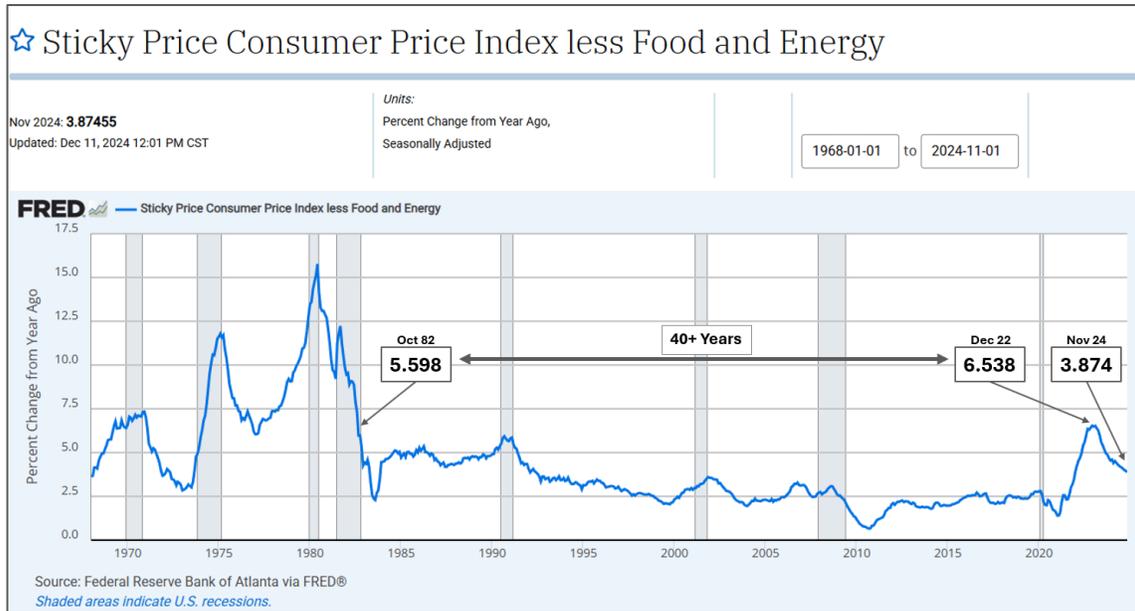
- 1) Construction costs
- 2) Labor costs
- 3) Food costs
- 4) Cost to eat at a restaurant
- 5) Cost of insurance, especially home insurance
- 6) Home appreciation drives up property taxes
- 7) Increased utility cost
- 8) Cost of credit (credit card, etc.)

These factors affect home buyers' ability to save for their down payment or qualify for a loan, reducing the number of homebuyers in the market.

Even the Fed predicts inflation will not reach its target rate of 2% until **2027**.⁽⁷⁾

Core Inflation (Less Food and Energy) is 3.8%

Chart 11

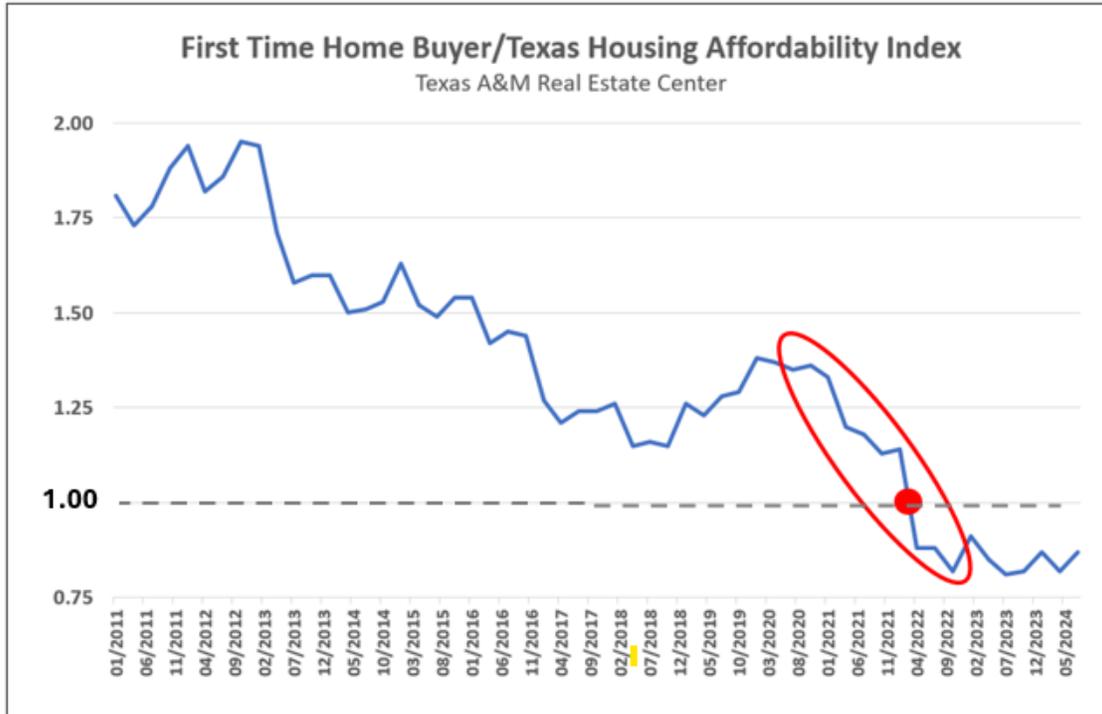


It has been over 40 years since core inflation reached 6.5%, as it did in December 2022. It has been 23 years since core inflation was at the present-day rate of 3.8%. The policy makers of today may not appreciate what it takes to fully tame this level of inflation.

Source: Federal Reserve Bank of Atlanta via FRED <https://www.atlantafed.org/>

Affordability

Chart 12



Median Family Income and Median Home Price are correlated to produce an Affordability Index
Source: <https://trerc.tamu.edu/data/housing-affordability/?data-State=Texas>
Texas Real Estate Research Center

Affordability began the decline to below a 1.00 index during the pandemic when home prices dramatically increased. The red dot shows when homes dropped below the 1.00 affordability index, especially for the first-time homebuyer, in the middle of 2022, which is when sales of existing homes abruptly slowed and have remained suppressed through 2024. This trend is expected to continue through 2025. ⁽⁸⁾

Summary:

Will sales increase in 2025? Most likely not because of the following challenges: ⁽⁹⁾

- **Elevated mortgage rates:** At the start of 2022, mortgage rates were near historic lows of around 3%. As inflation surged and the Fed began hiking interest rates to tame it, mortgage rates roughly doubled within a year. In 2024, mortgage rates were still high, effectively pricing millions of prospective buyers out of the housing market.
- **Lock-in-effect:** Since 90% of homeowners are locked into mortgage rates 6% or below, with some as low as 2% and 3%, homeowners are reluctant to sell their current homes since it would mean buying a new home with a significantly higher

mortgage rate. Until mortgage rates decrease by a substantial amount, homeowners have little incentive to list their homes for sale.

- **Inflation and debt:** Inflation increases the cost of basic goods and services, reducing the purchasing power of prospective home buyers. Investors in U.S. Treasuries will continue to be concerned about inflation and the U.S. debt and therefore expect a higher yield before investing in long-term treasuries.
- **Affordability:** Housing prices also continue to increase, though at a slower rate. Together with elevated mortgage rates, increased material, utility and labor costs, higher home insurance rates, and higher ad valorem taxes, it is increasingly difficult for first-time buyers (and many others) to manage the cost of a home. ⁽¹⁰⁾

Final note: The real estate industry has been hit by the perfect storm. During the pandemic, home prices increased by a much larger amount than in the past. Subsequently, mortgage rates more than doubled. The YOY inflation rate shot up for the first time in 40 years, which helps keep 10-year treasury yields high. The massive infusion into the U.S. money supply in the form of stimulus funding by Congress and funding through the Federal Reserve eventually triggered the increase in the inflation rate. It is going to take some time for all of this to balance out, assuming the correct actions are taken to stop fueling inflation.

1. *What Determines the Rate on a 30-Year Mortgage?* <https://www.fanniemae.com/research-and-insights/publications/housing-insights/rate-30-year-mortgage>, December 11, 2024. *High mortgage rates are probably here for a while.* <https://www.brookings.edu/articles/high-mortgage-rates-are-probably-here-for-a-while/> November 16, 2023. *Mortgage Rates Aren't Moving in the Same Direction as the Federal Funds Rate—Here's Why.* <https://www.investopedia.com/mortgage-rates-arent-moving-in-the-same-direction-as-the-federal-funds-rate-heres-why-8745887> November 15, 2024.
2. *US Debt Clock.* <https://www.usdebtclock.org/>
3. *Investopedia – Understanding the Lock-in-Effect.* <https://www.investopedia.com/the-lock-in-effect-8414620> January 23, 2024
4. *Majority of Americans Still Feel Locked in by Mortgage Rates—With More Than Half of Borrowers' Rates Below 4%.* <https://www.realtor.com/news/trends/majority-americans-still-feel-locked-in-by-mortgage-rates/>
5. *The housing market is 'stuck' until at least 2026, Bank of America warns.* <https://www.cnn.com/2024/06/27/economy/housing-market-prices-inflation/index.html> June 27, 2024
6. *More Than One-Third of Homeowners Say They'll Never Sell.* <https://www.redfin.com/news/survey-homeowners-reasons-to-not-sell/>
7. *The Beige Book.* https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20241204.pdf, Summary of Economic Projections, December 18, 2024
<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20241218.pdf>
8. The Texas Housing Affordability Index (THAI) and First-Time Homebuyers Housing Affordability Index (FTHAI) use the quarterly median price for homes (both new and existing) sold through Multiple Listing Services in Texas to calculate the required monthly mortgage payment. A higher THAI indicates relatively greater affordability. A ratio of 1.00 means that the median family income (MFI) is exactly sufficient to purchase the median-priced home. A THAI above 1.00 means the MFI exceeds the required income to purchase a median-priced home. Conversely, a THAI below 1.00 indicates the MFI is **not sufficient to purchase the median-priced home**. See <https://trerc.tamu.edu/wp-content/uploads/files/PDFs/THAIUserGuide.pdf> for a more detailed explanation of their index.
9. *Fannie Mae Economists Share 5 Housing Market Predictions for New Year - Existing homes sales will remain near 30-year lows.* <https://www.prnewswire.com/news-releases/housing-market-unlikely-to-thaw-in-2025-due-to-affordability-challenges-and-lock-in-effect-302331485.html> December 16, 2024
10. *The Texas Housing Affordability Index (THAI) and First-Time Homebuyers Housing Affordability Index (FTHAI).* <https://trerc.tamu.edu/wp-content/uploads/files/PDFs/THAIUserGuide.pdf> Through Q3 2024

3

Actuarial Review of Rate Analysis by OPIC and TDI by Khiem Ngo



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Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

RUDD AND WISDOM'S ANALYSIS OF AIS'S REPORT COMMISSIONED BY OPIC

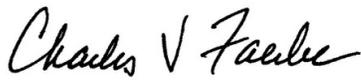
Rudd and Wisdom, Inc. has been asked by the Texas Land Title Association (TLTA) to review AIS Risk Consultant, Inc's (AIS) report titled "Texas Title Insurance Industry Rate Analysis" and dated February 13, 2024 commissioned by the Office of Public Insurance Counsel (OPIC). This letter includes our analysis of AIS's report.

AIS recommended a rate change range between -11.1% to -15.1%. We believe AIS's rating analysis is not actuarially sound because of the following reasons.

1. AIS used a profit load of 6.5% compared to 12.0% and 11.0% used by TLTA and TDI, respectively. The large difference between the profit load provision used between AIS and TLTA/TDI is because AIS failed to directly calculate the cost of capital for title insurance and selected the cost of capital based on property and casualty lines of business that are not comparable to title insurance. For example, AIS determined the cost of capital by relying on cost of capital used in other states for their property and casualty lines of business such as workers compensation and fire and extended coverages. This methodology is not based on any study and fails to recognize the difference in risk between title insurance and property and casualty lines of business. The cost of capital used by TLTA is more appropriate because it's determined using three widely accepted methods (CAPM, Fama-French, Discounted Cash Flow) using the most recent public data available for businesses that have comparable business risk to the Texas title insurance industry.
2. AIS relies on historical experience for the past 10 and 15 years to determine the indicated rate change. Relying solely on historical experience is only appropriate if historical premium volume is similar to premium volume expected in the rating period. However, starting in the fall of 2022, the Texas title industry has experienced a significant downturn primarily driven by a depressed housing market. The depressed real estate market was primarily driven by an immediate decrease in interest rates to address COVID economic concerns, followed by rapidly accelerating higher interest rates to address inflation. For example, the total premium written in CY2023 is 33% less than CY2022 and is continuing through CY2024. In addition, title insurance is a transaction dependent type business where premium volume is highly correlated with expense ratio. For example, the title insurance rate can be lower at higher premium volume, but the title insurance rate needs to be higher at lower premium volume. This is further complicated by the extreme inflation during the 2023-2024 time period. We believe using historical experience for the past 10 to 15 years give too much weight to the pandemic periods 2020 through 2022 which results in higher premium volume than expected in the rating period, ii) lower expense ratio than expected during the rating period and iii) rate change that is significantly lower than appropriate levels given the current title insurance market conditions. Given the importance of the expense ratio, any scenarios used to develop the rate change should result in premium volume that is similar to what is expected during the rating

period. In order for the title insurance rates to be actuarially sound, the recent downturn in title insurance market has to be considered in the rating analysis in order to reflect the current title insurance market conditions.

We believe Rudd and Wisdom's report titled "Texas Title Rate Study" and dated October 14, 2024 takes into account the current title insurance market conditions. The premium volume assumed for each of the scenarios used in Rudd and Wisdom's report is similar to the current premium volume experienced after the downturn in title insurance market. Based on our analysis, we believe a reasonable rate change range is between 0.0% to -4.7%. However, given the downturn in the title insurance market, we recommend more weight be given to the 2023 experience which results in a 0% rate change because the 2023 experience most accurately reflects the current market conditions.



Charles V. Faerber, F.S.A., A.C.A.S., M.A.A.A



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RUDD AND WISDOM'S ANALYSIS OF TDI'S 2024 TITLE RATE REPORT

Rudd and Wisdom, Inc. has been asked by the Texas Land Title Association (TLTA) to review the Texas Department of Insurance (TDI) report titled "2024 Title Rate Report" and dated September 2024. This letter includes our analysis of TDI's 2024 Title Rate Report.

TDI relies on historical experience for the past 5, 10, 15 and 20 years to determine the indicated rate change which has a wide range of -4.9% to -15.4%. Relying solely on historical experience is only appropriate if historical premium volume is similar to premium volume expected in the rating period. However, starting in the fall of 2022, the Texas title industry has experienced a significant downturn primarily driven by a depressed housing market. The depressed real estate market was primarily driven by an immediate decrease in interest rates to address COVID economic concerns, followed by rapidly accelerating higher interest rates to address inflation. For example, the total premium written in CY2023 is 33% less than CY2022 and is continuing through CY2024. In addition, title insurance is a transaction dependent type business where premium volume is highly correlated with expense ratio. For example, the title insurance rate can be lower at higher premium volume, but the title insurance rate needs to be higher at lower premium volume. This is further complicated by the extreme inflation during the 2023-2024 time period. We believe using historical experience for the past 5 to 15 years give too much weight to the pandemic periods 2020 through 2022 which results in higher premium volume than expected in the rating period, ii) lower expense ratio than expected during the rating period and iii) rate change that is significantly lower than appropriate levels for the current title insurance market conditions. Given the importance of the expense ratio, any scenarios used to develop the rate change should result in premium volume that is similar to what is expected during the rating period. In order for the title insurance rates to be actuarially sound, the recent downturn in title insurance market has to be considered in the rating analysis in order to reflect the current title insurance market conditions.

We believe Rudd and Wisdom's report titled "Texas Title Rate Study" and dated October 14, 2024 takes into account the current title insurance market conditions. The premium volume assumed for each of the scenarios used in Rudd and Wisdom's report is similar to the current premium volume experienced after the downturn in title insurance market. Based on our analysis, we believe a reasonable rate change range is between 0.0% to -4.7%. However, given the downturn in the title insurance market, we recommend more weight be given to the 2023 experience which results in a 0% rate change because the 2023 experience most accurately reflects the current market conditions.

Charles V. Faerber, F.S.A., A.C.A.S., M.A.A.A

Khiem D. Ngo, F.S.A., A.C.A.S., M.A.A.A

4

Written Comments from Independent Title Agents

by Claire Hartman,
Laurie Leenhouts, Laura
Hillis, Paul Rodriguez &
Susan Garcia, Nathan
Lowry, Randy Pearson



October 22, 2024

Commissioner of Insurance, MC: COI
Texas Department of Insurance
PO Box 12030
Austin, TX 78711-2030

Dear Commissioner Brown,

I am an owner of a midsize title company in North Central Texas (Bell/Coryell counties). First Community Title (FCT) is 138 years old. We are sovereign in both counties, meaning we have original books in our office that date back to the origination of the county recording records, roughly the 1880's. We currently have 35 employees comprised of a full escrow and examination staff. Many of my staff (43%) are single moms or live in a single income household.

I have lived the ups and downs of the real estate market cycle multiple times in my 38 years of serving the consumer. And I can say these past 4 years have been the most trying and unpredictable in both good ways and bad.

We all know that 2020 and 2021 (COVID YEARS) were an anomaly. The title insurance industry faced a real estate sales market that we had not ever faced before. But even in the windfall of orders and closings, we faced a level of stress that was hardly sustainable. You couldn't train employees fast enough although we tried. So that forced the veterans in our industry to work tireless hours giving up precious time with their families, while also training the new team members in hopes of relieving the overload and stress.

As an industry that employs about 20,000 people statewide, you only learn title insurance through "on-the-job training." Therefore, as an employer, when you spend roughly 2 years to train an employee, you don't want to lose them due to a market downturn. That would be throwing away an expensive investment.

As we began to travel through 2022 the real estate sales markets across Texas began to diminish. The point of decline happened at different times throughout the state. For my area, North Central Texas, it began at the ½ year mark. We had a strong first half of the year and began our decline in July of 2022. And by year end, we had made ½ of what we did in the year before. Admittedly it wasn't a bad year, but it began to show a trend that caused concern. So, we began to review and cut non-personnel expenses.

As 2023 began, the decline started to feel more like a “free fall.” We continued removing costs that were not essential. When employees left, we didn’t replace them. The owners of FCT decided we wouldn’t lay off the foundation of our business, our employees. The year 2023 proved to be the worst year in my 38 years of practicing title insurance. Because we value our team, we held to the belief that we would use the profits from 2020 and 2021 to sustain the company through 2023 and would hope that 2024 would be an improvement. The consensus in 2023 was that 2024 would be better. And it is not. **It is worse.** So, as I look toward 2025, I am cautious, nervous, and guarded.

I am also the current Texas Land Title Association (TLTA) President. Starting in June 2023 I have been reaching out to independent agents throughout the state. I have visited small towns northwest of central Texas, in east Texas, Ft. Worth and towns west, and in Houston. And what I have learned is that they are all struggling. They have staffs of 2 people to a hundred employees or more. And they ALL express to me their concern about the current market and the concern that decreasing title rates would cause them to make devastating decisions affecting their livelihood. It is a common thread, without exception.

As for our discussion about title insurance premium rates, any cut at this time could be disastrous for many small title companies in Texas. As for FCT, it would cost hard working talented trained people their jobs. It could also cause us to have to close an office or 2 that have been open for over 22 years. And that would be devastating.

Our responsibility to the consumer is to confidently close their real estate transactions with an overriding fiduciary responsibility to all affected. And we have taken on more responsibility over the years due to issues with wire fraud, cashier check fraud, seller impersonation fraud, email scams, seller deed fraud and the list can go on and on. The consumer does not typically understand the depth of issues we work to ‘stay away from’ or ‘ward off’. They want to ‘close & fund’ on schedule regardless of the obstacles. We must have highly trained efficient staff members who can stay patient and kind while being authentic. And it takes a special kind of person to tell the client what they need to hear and not always what they want to hear; remembering that typically they are buying or selling the largest investment in their life which in itself is stressful for them.

While analyzing our expenses looking for line items we, FCT, could remove, I also found expenditures had increased significantly. Below are our changes in income/various expenses that stood out from 2022 thru Sept 2024.

Income

Our percentage decrease of revenue from 2022 to Sept 2024 shows our market is down 29.44%.

Expenses

- Overall expenses are down 15.8% - this is due to attrition of staff (from 48 to 35) and removal of noncritical expenses.
- Employee count dropped 8.5%. But employee costs are up 4.6%. And there have been no raises since 2022.
- Rents collectively (all offices) increased by 30.5%.

- Utilities are up by 12.8%.
- Software Maintenance, including protection and cyber security (not insurance), is up 33%

I appreciate your time and review of our concerns about our industry and how to move forward with respect to title insurance rates. We understand our charge of caring for the consumer. And I believe to do that we must have talented dedicated staff. And we must pay them adequately as they, too, are consumers in our industry and deserve the reality of homeownership.

Respectfully,

A handwritten signature in black ink, appearing to read "Claire Hartman". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Claire Hartman
Owner/Partner



September 30, 2024

Commissioner of Insurance, MC: COI
Texas Department of Insurance
PO Box 12030
Austin, TX 78711-2030

Re: Impact of Proposed Title Insurance Rate Reduction on Small Businesses

Dear Commissioner Brown,

I am writing to express my deep concern regarding the proposed reduction in title insurance premiums. While my business, Title Partners, has been in operation since 2018, I have over 31 years of experience in the title insurance industry. Based on this extensive experience, I can confidently say that the proposed rate reduction would have a significant impact on the sustainability of small businesses like ours at Title Partners, LLC.

Below, I have outlined key areas of our business that would be adversely affected by any decrease in title insurance premiums.

1. Business Changes Since Interest Rates Increased in 2022

Since the rise in interest rates, our revenue has steadily declined. In 2021, our agency earned \$20.6 million in revenue with a net income of \$5 million. By 2023, our revenue fell to \$11 million, with net income dropping to \$659,000. We are currently on track to break even in 2024, largely due to cost-saving measures we've implemented across the company. However, this downward trend is already putting considerable strain on our financial stability, and any reduction in title premiums would exacerbate this challenge.

2. Inflation's Impact on Expenses

In addition to declining revenues, inflation has significantly increased our operating expenses. Our health insurance benefits are expected to increase by 25-30% at renewal for the midmarket space we operate in. This equates to cost upwards of \$125,000 to our expenses. Our internet provider has raised rates by 10%, and many employees have requested salary increases due to the rising cost of living. These additional financial pressures are difficult to manage, especially given the current economic conditions.

3. Impact on Profitability

The combination of falling revenue and rising expenses has severely impacted our profitability. This not only limits our day-to-day operations but also hinders our ability to grow and invest in key areas like expanding our workforce, upgrading technology, and



Title Partners

Reputable. Reliable. Respected.

enhancing critical services such as cybersecurity. These services are vital for consumer protection, and without the financial capacity to scale, our long-term viability is at risk.

4. Adjustments Made

To manage these challenges, we have made significant adjustments, including closing our Houston operation in March 2023, reducing our workforce from 74 to 44 employees. We've cut expenses by downsizing office space, switching vendors, reducing plant subscriptions, and implementing salary reductions for commission-based employees and executive managers. While these measures have allowed us to remain operational, any further cuts would compromise the quality of our services and our ability to meet consumer needs.

5. Projections for 2025

Looking ahead to 2025, we anticipate similar economic conditions as we navigate post-election uncertainties and ongoing inflation. While we hope that increased business volume will provide some relief, we must remain cautious in managing our costs to ensure the stability of our business.

6. Effects of a Rate Decrease

A rate decrease, even a small one, would force us to make additional workforce cuts and reduce services that are critical to protecting consumers. As a small agency, we lack the resources that larger companies can leverage to absorb such cuts. While we have aggressively managed many of our operational costs, certain fixed expenses—such as rent, electricity, property taxes, and common area maintenance (CAM)—are beyond our control and continue to increase year over year. These unavoidable expenses further strain our financial capacity, leaving us with little flexibility to adjust to a rate decrease. Diminishing our cybersecurity measures, reducing experienced staff, and cutting other vital protections would increase the risk of title claims, not just for our agency but across the industry.

In my 31 years in the title industry, I have witnessed five rate reductions. However, this current environment is different from previous market downturns. The economic pressures we are facing today are far more intense, and any further reduction in rates would dramatically affect our ability to operate and grow. Small businesses like ours cannot sustain such changes without long-term damage.

I respectfully urge you to consider the detrimental effects that a rate reduction would have on small, independent title agencies, and to ensure that the title insurance industry remains stable and protective of both businesses and consumers.



Title Partners

Reputable. Reliable. Respected.

Thank you for your time and thoughtful consideration of my concerns. I am available to provide any additional information or data that may assist in your decision-making process.

Sincerely,

Laurie Leenhouts

President, Title Partners

Central TITLE

October 22, 2024

Texas Department of Insurance
Agent and Adjuster Licensing
P.O. Box 12030, MC: CO-AAL
Austin, Texas 78711-2069

Re: Possible Rate Reduction

To Whom It May Concern:

My name is Laura Hillis. I am the EVP / General Counsel of Central Title Company and I manage the day-to-day operations of our company. We are an independent title agent in Northeast Texas and licensed in five (5) counties with six (6) offices. All five (5) of our plants are sovereign plants.

Our main office in Longview is our youngest of our county seats at around 93 years; our others all top 100 + years of service. We currently have 55 employees; at our peak, we had 78 on staff. We are extremely proud of our longevity in our industry and our presence and service to our local community.

The pandemic era was a business changer. What could have decimated our business became a boom and now the pendulum has swung to a drought.

While 2022 was wonderful, 2023 was one of the ugliest years in our company's history and any profits earned were lost and then some and have yet to balance out. Our business fell by 25% in file count and by 27% in premiums generated. Meanwhile our expenditures increased, salaries remained flat, and capital expenditures remain nonexistent. Our business profit / loss was negative for 15 months.

Expenses such as postage, federal express, health insurance, malpractice, building, valuable paper, cyber wire fraud coverage have increased more than 30%. Wire fraud is rampant and specifically targeted to title companies; however, the support to prevent it or insure it is non-existent and the cost and burden falls to the agent.

In early 2024, after dissecting every form of revenue and expense, we cut our staff by 15%. We are not a large corporation; these are not nameless faces on a spreadsheet; these were not emails; these were in person conversations. Forecasting for 2024 and beyond are consistent (or slightly worse) than 2023. We have decreased our staff count and buckled every belt we can find. We are taking steps to ensure our business still exists.

Our revenue is reinvested in our operations, namely our staff and in the technological advances necessary to remain competitive. Our counties are rural; our property is largely rural. As the cities move outward, the "new" property being insured is old family land with title problems.

A decrease in premiums will throttle our ability to remain competitive. A decrease in premiums will pause our ability to support our staff and remain a decent employer.

Thank you for your time and consideration.

Very truly yours,



LAURA HILLIS
EVP, General Counsel

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Longview, Texas 75605
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Gilmer, Texas 75644
Main: (903) 843-2316
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HALLSVILLE
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Valley Land Title Co.

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Fax (956) 217-3122
www.rodriquezp@valleylandtitleco.com

October 8, 2024

The Honorable Cassie Brown
Commissioner of Insurance, MC: COI
Texas Department of Insurance
P. O. Box 12030
Austin, TX 78711-2030

RE: Title Insurance Premium Rate Review

Dear Commissioner Brown,

Valley Land Title Company has operated in Hidalgo County, Texas, as an independent title insurance agency under various ownership structures since 1919 and has faced a wide variety of economic climates and challenges. We have four branch offices in the county and employ sixty individuals. What we have experienced with the Fed's unprecedented increase in interest rates has been unique because of how quickly the impact on residential sales was felt by us and our fellow agents. In 2022, our income declined by over 50% from 2021 and we began operating at a deficit in 2023 and continue that negative trend today. We expect 2024 to result in operating losses in the low to moderate six figure range.

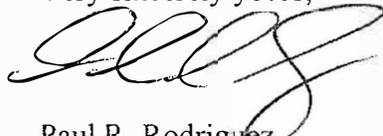
Our income generation has been severely impacted by consumers facing both diminishing availability of housing units and the challenges of qualifying for a reasonable mortgage interest rate that escalated so rapidly. At the same time, our profitability was also negatively affected by the increased cost of doing business with our expenses rising by almost 9.50% from 2021. Besides the higher cost of business and medical insurance, rent, real property taxes, office supplies and other miscellaneous expenses, our payroll ballooned not by the number of employees, but by the need to increase salaries to retain employees as other employers raised salaries in the post-COVID world of lower employee availability.

With 2025 fast approaching, we are pleased to see mortgage interest rates begin to ease a bit, but they will not drop as quickly as they rose, and they will not approach the level seen in 2020 and 2021. In fact, the typical Texas consumer is standing on the sidelines of a housing purchase in hopes of benefiting from rates well below the current 6%+ range.

Currently, we are keeping a close eye on our employee numbers and in most cases not replacing employees that depart. We did not pay bonuses to our employees in 2023, which is a sizable portion of their total compensation, and expect to do the same for 2024. Our 401(k) contributions have been reduced and at this point we expect to break our 18 years+ of absorbing increased employee medical insurance costs and pass this year's inevitable increase on to our employees.

In short, a reduction of any kind in our title insurance premium rates will only exacerbate these conditions and minimize any hopes of reaching a reasonable level of profitability.

Very sincerely yours,



Paul R. Rodriguez
Chief Executive Officer



Susan Garcia Espinosa
Director of Administration



BIG COUNTRY
— TITLE COMPANY —

October 15, 2024

Texas Department of Insurance
Attn: Commissioner Cassie Brown
Mail Code 106-2T
P.O. Box 149104
Austin, TX 78714-9104

Dear Commissioner,

I am writing on behalf of Big Country Title to express our thoughts regarding the upcoming rate hearing on October 22. We appreciate the opportunity to provide comments and respectfully request the Texas Department of Insurance (TDI) to maintain the current title insurance rates.

Before providing information on our perspective of the market and how it relates to our current rates, I thought it would be helpful to better identify who we are. Big Country Title, LLC is a small, family-owned (my wife and I are 50/50 partners) independent title insurance agent formed in 2012 and serving in the Big Country Region of Texas. We own and maintain licensed abstract plants in each Callahan, Eastland, Stephens, Stonewall, and Taylor Counties, all of which are sovereign abstract plants. We have office locations in Abilene, Breckenridge, and Eastland. The company has 19 full-time employees, 1 part-time, and 3 part-time college interns. Our transaction mix varies based upon economic times and trends, but as a rural title agent we have to be proficient in all types of transactions (residential, commercial, farm & ranch, etc...). Considering all the types of agents across Texas from the specialized agencies that predominantly serve the densely populated urban areas to the most rural and lowly populated areas, we believe that we represent the average agent and hope that our experience and perspective will serve you well as proceed in the rate setting process.

Since the rise in interest rates began in 2022, our business has experienced significant changes. The demand for real estate transactions has decreased, affecting our volume and revenue. We have observed a reduction of approximately 31% in our transactions, which has put pressure on our ability to sustain operations without significant restructuring. In that same year, we reduced staff by 28% from 36 to 26 employees by either not replacing staff that was subject to ordinary turnover or by layoff. Toward the end of the year we carried payroll expenses beyond profitability in an effort to preserve jobs, but ultimately had to lay off 5 employees. This was the first time in 10 years that we've had to layoff anyone, and it was one of the hardest decisions of our career, not because it wasn't necessary to sustain the financial health of our business, but because we had to choose the business over people.

Inflation has further compounded these challenges, with essential business expenses rising sharply. Key areas where we have seen increased costs include:

- **Salaries and Benefits:** Up by 19 % due to labor market adjustments and competitive compensation requirements.
- **Utilities and Rent:** Overall increased by 5% reflecting some of the overall rise in operational costs.

- **Insurance and Cybersecurity:** Higher premiums and investments in data security have led to a 16% rise in this category.
- **Taxes and Other Overhead:** Incremental increases in local and state taxes have added to our cost burden.

These rising expenses have affected our profitability, forcing us to re-evaluate budgets, reduce discretionary spending, and optimize operational efficiency. In order to mitigate financial strain and in addition to the mentioned layoffs, we are still having to defer hiring, limit salary adjustments, and absorb certain overhead functions (accounting, HR, sales/marketing) that were being performed by more qualified staff.

Looking ahead to 2025, we anticipate that the market will continue to face uncertainties although it's in our small-business nature to try to be optimistic. Any reduction in title insurance rates, would exacerbate the financial pressures already present in our business. A rate decrease could necessitate further cost-cutting measures that might impact service levels, staff morale, and the ability to invest in technology and compliance, which are critical for our industry's integrity and customer trust. Furthermore, it could lead to reduced competition, as smaller agencies might not be able to absorb such changes, ultimately harming consumer choice.

Maintaining current rates will provide stability for the industry, allowing businesses like ours to continue serving our communities effectively without compromising the quality of service to the consumer. It is important to underscore that any changes to the rate structure will have a ripple effect across the industry, potentially disrupting not only local agencies but also the broader real estate ecosystem in Texas.

Thank you for considering our comments. We believe that a good system of title and title insurance ensures the affordability and availability of real estate and home ownership for the most people. We have great respect for the work that you're doing and look forward to continuing to work alongside TDI to ensure a balanced, competitive, and fair market for title insurance in Texas. We hope to provide more insights during the upcoming hearing, and I am available to discuss this matter further or answer any questions.

Sincerely,
Nathan Lowry

A handwritten signature in black ink, appearing to read 'N. Lowry', written in a cursive style.

President & CEO



October 10, 2024

The Honorable Cassie Brown
Commissioner of Insurance, MC: COI
Texas Department of Insurance
P.O. Box 12030
Austin, Texas 78701-2030

Re: Title insurance premium rates in Texas

Dear Commissioner Brown:

As the Texas Department of Insurance (TDI) considers historical data compiled by actuaries, economists and statisticians in its scrutiny and analysis of title insurance premium rates, I pray you will also consider the current reality of title agents across Texas before reaching your final determination.

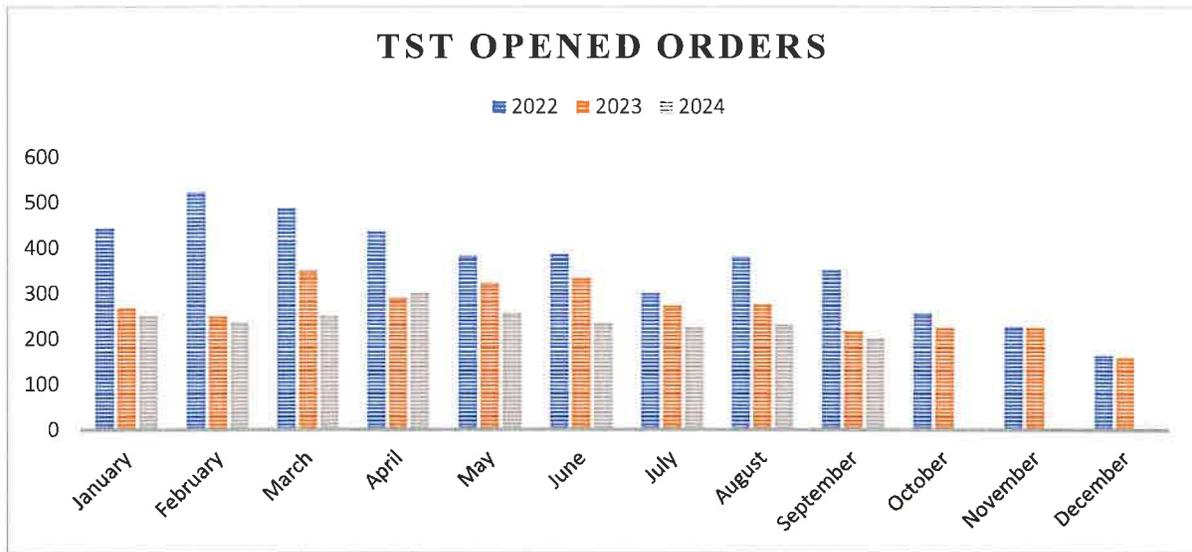
I am a 45-year land title professional affiliated with Town Square Title Company, LLC (TST). Throughout my career, I have been both honored and blessed to help thousands of Texans securely realize their real estate goals and dreams. My long-standing professional ambition is and has been to someday leave the industry better than I found it, while helping develop the next generation of title insurance professionals along the way.

TST is a mid-size independent title agent headquartered in Ellis County, Texas. While we are licensed to write title insurance in several north Texas counties, our primary focus is the community-minded counties of Ellis, Johnson and Hood where our team members call home. We are purposefully entrenched as community stakeholders in the counties in which we live because we care. Many members of our team donate their time, talent and resources to community initiatives, churches, organizations and boards in effort to improve our community and help contribute to a better way of life.

Our business reputation is built on trust and delivering excellence. We take great pride in providing skillful, best-in-class service to our customers.

TST experience since 2022.

In effort to combat inflation, the Federal Reserve initiated several interest rate hikes in 2022. These rate increases, coupled with high real estate prices, have effectively chilled our regional real estate market. As compared to prior years, TST's order count fell by 50% with revenues mirroring these results.



Ongoing inflation.

In addition to a decline in business, inflationary pressures have increased both employee and operational costs. We now pay more for nearly everything – from supplies like paper, pens, and ink, to equipment maintenance and utilities. TST’s labor costs per closed file have increased 20% from 2002 through 2024, while revenue per closed file only increased 11% over the same period.

TST’s employer sponsored health care benefits costs have also risen significantly. Our family coverage premium has increased 15% since 2022. The cost of our Errors and Omissions Insurance has more than doubled over the past few years.

Pinched by higher costs and revenue shortfalls, TST has grappled to cope with more financial strains than we have encountered in a number of years. To remain viable, we have been forced to identify and eliminate non-essential expenses and make ongoing sensible cuts in our operating expenses.

Expense reductions.

Since 2022, TST has been compelled to reduce overall expenses by 65%. This cutback demanded terminating and/or consolidating office locations as well as the grievous task of eliminating staff positions.

TST employed 54 full-time employees in 2022. Today, that number is 37.

In 2023, TST’s profit margin was less than 1%. If not for necessary cost cutting measures, this miniscule profit would not have been possible. We expect to perform only slightly better in 2024.

Looking ahead to 2025.

On September 18, 2024, the Federal Reserve cut its benchmark interest rate by half a percentage point. A move by the central bank to hopefully begin a gradual defrost of the U.S. economy.

Further, the Federal Reserve has suggested that inflationary pressures in the economy are beginning to ease. As of August, the Federal Reserve's inflation rate (which excludes food and fuel prices) was stated to be 2.5% year-over-year, slightly above the target of 2%.

These are certainly encouraging headlines but, candidly, there are several other interrelated factors that must be addressed and resolved to realize a discernible recovery:

Unemployment. The unemployment rate continues to grow above 4%. Most national economists agree there will be a continued softening of the labor market through 2025.

Cost of goods. Inflation will remain to be a factor in the near term. From the consumer standpoint, a trip to the local grocery store will confirm this fact. For builders, construction input costs will remain higher (+2.3% in 2024). Financial forecasts agree that the last mile of inflation normalization will take longer than many had anticipated.

Inventory. Although housing inventory improved in the last year (+36%), there is still a lagging shortage. Single-family construction starts have been on the decline since March 2024.

Affordability. High real estate prices will remain as a barrier. Texas home prices have increased faster than the national average, and faster than the state's personal income. A combination of demand and limited supply have contributed to the increase. Although home prices fell 0.26% in August 2024, the nominal decrease has had no significant impact on our market. Housing affordability is at an all-time low.

Mortgage rates. Although mortgage rates have slightly eased with the recent Federal Reserve cut, many would-be buyers will wait for further rate drops to improve affordability. Projected lower interest rates may boost activity somewhat, but TST anticipates total sales to remain somewhat flat in 2025.

Golden Handcuffs. A large number of existing homeowners are locked into a mortgage interest rate of 3.5% or less. These owners might want to purchase a new home, but can't afford a comparable home with today's mortgage rates being nearly double of what they have.

Presidential election cycle. Experience confirms the real estate market slows in the months leading up to and lingering after a presidential election. Insofar as the current presidential cycle is anything but typical, it is producing much uncertainty. Consumers, by nature, avoid making big decisions in times of instability.

Consumer sentiment. According to a recent Press Release by The Conference Board, Inc., September's *Present Situation Index* (consumers' opinion of current business and labor market conditions) fell by 10.3 points. The *Expectations Index* (consumers' outlook for income, business, and labor market conditions) declined by 4.6 points. A strike by the International Longshoremen's Association will reintroduce supply chain disruptions. The Israeli conflict against Hezbollah and the ongoing Russia-Ukraine War continues to create worry about international escalation. In short, consumers are concerned and have instinctively adopted a wait-and-see posture. We expect this sentiment to spillover to 2025.

While some market improvement is anticipated in 2025, progress will be marginal. The overall Texas real estate economy is exceedingly soft and will require time to recover.

Beneficial ownership information reporting:

Beginning on December 1, 2025, Texas title agents (as the “Reporting Person”) must begin reporting beneficial ownership information in connection with certain entities or trusts involved in all-cash residential real estate transactions to the Financial Crimes Enforcement Network (FinCEN). By its own valuation, FinCEN estimates the cost for the Reporting Person to be \$500 per transaction to comply with this federal directive. This added obligation will obviously create additional financial and staffing burdens on Texas title operations.

A title insurance premium rate decrease?

If the objective of Sec. 2501.002 of the Texas Insurance Code is to (1) protect consumers and purchasers of title insurance policies; and (2) provide adequate and reasonable rates of return for title insurance companies and title insurance agents, now is not the time to decrease title insurance premium rates in Texas.

The Texas real estate economy is and has been in a sharp downturn, and most all licensed title agents are operating under extremely tight budgets. Many are generating just enough revenue to cover their costs, operating at breakeven. 2025 looks a little – only slightly – better.

If title insurance premium rates are decreased, many already-distressed title agents, most of whom are small businesses, will likely be pushed toward insolvency. Many less populated, rural counties in Texas could be left underserved.

I humbly ask that you please earnestly consider my boots-on-the-ground perspective and near-term outlook in your evaluation. It has been tough sledding out here and, realistically, I do not anticipate any meaningful positive change any time soon.

Respectfully submitted,



Randy Pearson

5

Summary
Comments
by Roland Love

Summary Comments

Roland Love, TLTA Regulatory Chair

At the October 22, 2024, public meeting at TDI, the Title Insurance Code provisions addressing setting an adequate and reasonable rate were discussed, including the consideration of “all relevant income and expenses.” The Title Insurance Code requires that a rate not only be reasonable to the consumer but also non-confiscatory to the title industry. The data demonstrated that a significant number of title agents would not only fail to recover their operating expenses but would also fail to realize an adequate rate of return if rates are decreased. It is clear from the continuing and predicted flat economic performance that a rate decrease will not allow an adequate rate of return for over a third of licensed title agents. This would create a confiscatory rate, which is prohibited by the Title Insurance Code Section 2703.152.

As noted by the Austin Court of Appeals in Geeslin, Commissioner of Insurance, and Texas Department of Insurance v. State Farm Lloyds, 255 S.W.3d 786 (Ct. App – Austin, 2008):

“Regulated companies are constitutionally protected from confiscatory rate orders. A government-set rate must allow a regulated company to not only recover its operating expenses, but also to realize reasonable returns on its investments sufficient to assure confidence in the continued financial integrity of the enterprise... A rate that does not allow for a reasonable rate of return is confiscatory and unconstitutional...[r]Rates can be confiscatory without necessarily leading to insolvency.”

Accordingly, TLTA respectfully submits that no change in rates is warranted at this time. A decrease in insurance rates in the current economic climate risks having a confiscatory impact and causing some title operations to become financially impaired or insolvent. TLTA further recommends that if a rate decrease is made, it should be very conservative and should be no more than a -1% adjustment. This level of adjustment would present a greater likelihood of meeting the statutory non-confiscatory requirement and would provide needed certainty, allowing agents to survive the downturned market.