

Arizona Department of Insurance - Founder and CEO of Proper Title

Interview conducted on December 06, 2022

Topics

Title Insurance, Underwriting, Escrow, Market Share, Data Access, Local Regulations, Business Scaling, Marketing strategies

Summary

In a conversation between a Texus client and the founder and CEO of Proper Title, the CEO advises against entering the title industry due to its difficulty and the importance of data. Instead, they suggest starting an escrow shop, which can be profitable but requires dealing with regulations at the county level and the industry's mom-and-pop nature. The CEO notes that obtaining an escrow license is easier than obtaining a title license and can lead to profitable partnerships. The conversation also touches on the nuances of escrow regulations and the potential limitations of combining escrow and title agency operations due to RESPA regulations.

Expert Details

Expert is the founder and CEO of Proper Title. Proper Title is a full-service title insurance agency serving the residential and commercial real estate industries. The firm is one of the fastest-growing title companies with plans set for regional and national expansion.

Prior to this, the expert worked at DOMA as their Chief Transformation, President Of NATC, Business Development Officer, leaving in Oct 2020. The expert can provide their expertise on strategic global business development (direct and broker), digital strategies, operations, and finance.

Prior, the Expert was the President- Direct Division at First American Title, leaving October 2018. In this capacity, the Expert was responsible for driving the vision and growth of the \$1.2B Direct Division, which consists of 5000 employees across North America.

Texus Client

Thank you for taking the time to speak with me today about the title insurance value chain. It's an old school industry where the purchaser is kind of disaggregated from the decision-maker, even though I know that's not supposed to be the case, but in reality, they are.

And the margins are really large. If somebody is going to buy \$1 million home and I guess it depends on the state, but \$4,000 for a title insurance policy. And in fact, like probably only, \$600 of that \$4,000 is really going to create their policy. And even with that, the underwriter is still making a giant profit margin, there's only 5% of it paid out claims.

Founder and CEO of Proper Title

Don't waste your time in title. So let me tell you why. So I've been in this now for 13 years, and I've had many calls like this. And with title very difficult thing as an entrepreneur to get into. And I'm going to tell you this from experience. So like I'm going to be a little bit on both sides of the spectrum here. So here's the deal. Title in general, is all about the transaction. It's a transactional business.

It's all about the people. It's about what the people know and it's about data. So if you don't have the right people doing it, regardless of how much money you have, like we had to play in the industry because you're on the right people and you don't have access to the data, because like Fidelity and First American don't want to sell it to you. You're going to be in a lot of trouble, AKA, someone like Doma. I help starts this title

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and a lot of money and a lot of brains failed in title. So Doma raised a ton of money, had a lot, a lot of smart people, mostly entrepreneurial people that straight out failed. And today, they just let go 50 more percent of their staff.

Tegus Client

Yes, the stock went from \$10 or \$0.50. Look, I appreciate what they were trying to do, just looking at it from a distance. But by the same token, change like what they were trying to affect can take decades.

Founder and CEO of Proper Title

Listen, this value chain from consumer that doesn't know what they're buying all the way down to transaction, there's a lot of money in that chain. What I'm saying to you is the title portion of it is very difficult, and the underwriting portion is almost impossible by being outside of the industry. And so what I would say to you is like escrow is an extremely profitable industry in this value chain that no one ever talks about. So the title is actually the house, right, and learning about what the house, what ease means, what's wrong with the house, all that kind of stuff.

Tegus Client

And escrow is the money driver.

Founder and CEO of Proper Title

Yes, the actual money. That is extremely profitable. It's why all like real estate agents say, I'm going to have an escrow company inside my shop because I can't make any money on my 2.5% on my transaction, but I can make \$10,000 or \$20,000 a pop on every transaction that comes through my door.

So for me, right, I've been in the industry for a long time. So for me to be successful, let me tell you what has to hit. So first of all, I have to raise money. It takes a lot of money. I'm not talking about underwriting here, like you can always be an agent, like you and I can tell you how to be an agent, you can hire some good people, and you can resell what an underwriter write does.

And just start an agency, there's 23,000 in the United States. So times 23,000 and you have someone that's going to give you some business. You can grab a license in New York, actually, it will take you a couple of months you become an agent and boom, you can start having your friends and realtors use you. Where the real money is, is underwriting. That's literally where you actually sell to agents. Remember, there's 23,000 agents in the United States. There's only 39 active underwriters in the United States. And only three or four of them own 87% of the market share.

I mean, think about that, as an entrepreneur think about that. It's ripe for disruption. Like here it is, you have all like \$23 billion industry, three to four companies own 87% of that. Ripe for someone to come in and disrupt it. By the way, it's extremely difficult, laborious, and very time and money like just absorbent. Every transaction, you do not, you need data.

You need to pull up a report that tells you what to do and what not to do. The two people that control all of that data or the water for your city is First American and Fidelity. So in order to kind of really compete against them and in a big way, they kind of have to disrupt that value chain, which is the data flow.

And that's where to give a little bit of what I'm doing, I'm going to disrupt that part of it. While everyone's fighting for the transactions up top over the soil, I'm going to be dealing with the water underneath the soil. It's the data that controls everything. That's why First American and Fidelity, they don't really care about the transaction. That's why they're amassing data plans, after the data plans, that the data plans. They own them, and they resell all that data. That's why the line item is \$1 billion in their P&L.

It's a \$1 billion line item that no one ever talks about, zero people. So if you start an underwriter, you start disrupting the value chain a little bit. Like They cut it off. They cut you off. I've seen them do it plenty of times.

Tegus Client

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Yes. But in terms of the data plan, as a moat, like couldn't one argue that that's really becoming more antiquated every day as a moat in the sense that you have more and more counties with online records. If you wanted to compete, you can pick a state that has a good proportion of online records for deeds and get a license in that state. And the title plant is less relevant. You take nine days to create a report and you have the data, too.

Founder and CEO of Proper Title

Okay. So let me tell you where you're right and when you wear off. So a lot of counties have it online, but they're not searchable and they're not indexable. I can give you a county in Oklahoma that everything is digital. You can't have access to it.

That means you have to go to that plant, download that on some kind of drive. It's all digital. You just can't get access to it. So understand all this stuff is free, everything that you're talking about, vary every county is free for you go in for \$7, you can get any deed in the United States, whatever format you need it in, some not digitized, some of them are. The problem with that is that if those counties that are digital, that means they have to have an API for you to get into that plant. That means that you need to be able to index one, two, three Maple Street and then it needs to be digitized to you in a format that you needed.

That exists in less than 1% of the plants in the counties in the United States as of today. So in theory, it's a great idea. And by the way, that will be antiquated, some guy like you, comes in and says, I'm going to raise \$500 million, and I'm going to digitize the United States. I'm going to take labor standards and digitize it and I'm going to own it, that can make it like free with a little charge, that would change everything, but you can't do that now.

So like literally, if you got a license in New York and Suffolk County is digitized, they're not just going to let you on your computer, go in and grab that. You have to go in, you have to pay for each one, you have to digitize the index. That's what First American and Fidelity are doing. They are spending money, taking the digitized asset, making it searchable and indexable. That's exactly what they're doing. And the reason why the government allows that to happen because it's free.

Meaning you can go in there himself and get it if it really wants to, they're just making it easier and charging you for it. That's the only way they get around that, the only way because it's like a library. It's a public library you can go and get the book, or you can pay for it online.

Tegus Client

Yes. So before we get back on to the underwriting platform, underwriting part of the value chain. Is that something that I found intriguing, which is why not just get into the escrow side of the business? Because it sounds like you can make a fortune if you got into underwriting, but it would be a huge undertaking. You have to raise a crazy amount of money and your odds of being successful, it's dependent on your execution, but it's not going to be greater than 50%.

So like going to raise \$500 million no matter who you are for a venture and not having a clear path to success is a big challenge. I mean there's ways you could do it. You probably could start in a particular county or state and go from there.

But like what's the opportunities you see on the escrow side. And my understanding of escrow, you know way better than me. My understanding of escrow is if you're a title agency, you have to be providing some value add, either the title report or the escrow, but it has to be something. You can't just be a middleman. So is there an opportunity to get involved in escrow and also do title agency work to reduce your margins?

Founder and CEO of Proper Title

Of course, so you could, in New York, start your own agency with an escrow attached to it. It's title and escrow, its title and they call it title and settlement services. So basically, you do both, but that's not what I'm saying. What I'm saying is like you can open up just an escrow shop. And your entire job is just to have escrow officers, not do the title work, you outsource small title agencies escrow work, and you charge them a fee. And so then you have no liability. All you're doing is holding money. So the biggest liability you have is sending a wire to the wrong place. You do have to be careful. Fraud is rampant.

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So if you go to a title agency and say, "Hey, listen, you run the title, you get the title fees, do that. I will be your escrow and there won't be any risk or fraud or anything on your side." I know a lot of people in different states that just have a couple of escrow officers that are usually women sitting behind a desk and they make a lot of money because you know what, escrow fees are set by the state, or the county, they are set by you. So you can have an escrow fee for \$1 billion or \$1, it all depends on what people want to spend. And if we're real to really like so, they'll get that end user to spend whatever they want because the end user has no clue.

Tegus Client

Are you governed by RESPA as an escrow company?

Founder and CEO of Proper Title

No. It all depends what state you're in. So some escrow companies are the Department of Insurance, some are Department of Corporation. So in like California, it's not RESPA at all. You can give inducements, you can take people to lunch, you can buy them whatever the F you want because you're not under the RESPA.

Tegus Client

How about in New York and Connecticut and states in the Northeast?

Founder and CEO of Proper Title

It all depends. New York. If you're not doing title, you are not under the RESPA rules. You're under a different role that are way, way, way more lax, way more lax. That's why you'll find the title company will use like a home warranty, escrow and like inspection companies that take people out. Connecticut is rampant. Connecticut, you can open an escrow company tomorrow and do it even how you want. All way down the East Coast, there are a lot of agents that use outside escrow, all of them. But again that like it's a boring business? You're part of the value chain. But like it's not something you'll get a cash on a multiple.

You know what I'm saying, it's all transactional based. There's nothing really of value there because it's all transaction, but it's a nice running business where you can make some profit from it, but it's not an enterprise value.

Like escrow itself is a beautiful business if you want to like set yourself up and you want a job every day for the next 20 years, you can make \$1 million for yourself and kind of have the business, but there's no real enterprise value. No one is coming in and being like, you built a beautiful escrow. I'm going to buy it, it just doesn't work like that in escrow.

Tegus Client

Yes. Like \$1 million a lot of money to a lot of people. And it's a nice living for a lot of people, but it's not your cap on it, then I understand. But like if you say there isn't a natural buyer for escrow companies, but you can keep growing and expanding and all of a sudden, in five years, be the largest escrow provider in the tri-state area and have a business that nobody wants to buy, but it's cash flowing \$10 million or \$15 million a year. And have a management team running it, like that's a fantastic outcome. You don't need to sell it.

Founder and CEO of Proper Title

100%, all depends what you want, but I'm just being honestly. I'm just being transparent where you're right, that is a wonderful, wonderful business. It's a great business. You're also too, by the way it's a great service.

Like remember, like, I'm not sure if you ever bought a home or not, it sounds like you probably have but the person you interact with is your escrow officer. It's not really the realtor. It's a loan officer and the loan officer is talking to your escrow officer, it's that woman behind the desk. It's like, hey, I need you to come in and sign these docs and, hey, we got everything like it's actually a great service. They're the air traffic control of the entire process.

Tegus Client

Yes. So I've had a lot of experience in dealing with them. And I get it. I see you like the value add. I see the preliminary closing statements and stuff that everybody is on the same page and being the trusted party in

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the middle to disperse and collect funds.

Founder and CEO of Proper Title

It's a great little business. Like Glen Oaks Escrow out of Southern California. And they just sold. And it was an amazing company doing amazing things, and they just sold. And so a great business, and they were the predominant ones in Southern California. And it was a business for 20 years, the owners made out really well, and they have made out for many years, and it was an escrow company. And like you said, it was like a great living for a lot of people they're doing a lot of good stuff.

Tegus Client

So if I wanted to start a tri-state area escrow company, I set up the systems I would need. I know there's a few different software programs out there that people can use or I could build my own. So you set up policies to prevent wire fraud and you'd start marketing to the realtor who'd would be driving that business. So you'd be marketing to realtors. And if not under RESPA, what would be common incentives one would use? I mean, could you tell the realtor you'll pay them a referral fee, could be that direct?

Founder and CEO of Proper Title

That's tough. It all depends on how you bite the apple. If you say to them, if you give me business, I'll give you dollar, I'm not sure. But if you say to them, if you give me business, I will charge your tumor a little less than everybody else. And at the end of the year, you can have like a profit share, you just have to kind of say it in certain ways.

Like you can't just do straight out inducements. You just can't do that, not because of RESPA. So it all depends on what state though, and what county, like the nuance of escrow goes down to the county level, which is also why I love escrow. I mean you can go into like Suffolk County, it can be different than Nassau County, totally different when it comes to escrow rules.

Tegus Client

That's actually a really nice barrier. It's not because you figure it out and you put in the upfront investment of time to figure it out and then other people, it's hard for them to actually do that and expand.

Founder and CEO of Proper Title

And you just hit up a really great nail. The nuance of that will give you the moat that you were talking about before, is if you're like, hey, I'm great in the tri-state area. But that's 35 different municipalities. It takes someone else a lot of time to figure that out. And that's why there's different title companies in each of those because it's done differently. Like you have a title company that's at in Sag Harbor that does things totally different as it would in Dix Hills or in Syosset.

Like totally different, but that's the reason why they're great there. And that's one reason, again, going back to the original conversation, like First American is so transactional and why Doma failed is that you have to know how 873 different municipalities work in the United States, unless you've been doing this for 50 years, good luck to be national, like good luck. Like the Oklahoma City is different than Tulsa.

Tegus Client

So I know you said escrow is not regulated the way title underwriting is, or title insurance is for agency and underwriting.

Founder and CEO of Proper Title

Absolutely. Anywhere you are.

Tegus Client

Roughly, what are typical ranges of what they charge?

Founder and CEO of Proper Title

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Again, it's all nuanced. So for instance, I buy a home Southern California. It's a \$7 million home. I paid \$17,000 in escrow fees, \$17,000 dollar. I bought the same house let's call it \$2 million in Connecticut. I paid about \$4,500 in escrow fees.

And by the way, all that is, is managing money. There is nothing else to do. There are no systems. Remember, like there's no risk mitigation to escrow other than like you talked about the fraud. There's no title production system. There's no looking for data. This is just basically moving papers around in money. So you can actually handle hundreds of escrows with a couple of people.

Tegus Client

Why do you think others haven't gotten into this business?

Founder and CEO of Proper Title

They have. There are tons of escrows. Let's go back to it. There's not a lot of guys. You can look at it two different ways. I fell into title 15, 13 years ago. They've never seen a guy like me in 100 years. So I'm like, why aren't more people doing this in title.

And then I figured out, I'm not telling my friend in New York about there because that will not benefit me up. That's the first reason. Second reason is not a guys like you or private equity or hedge even know about title, you guys have tried over the last couple of years because what's happened with the market, but title is so inside it, there's not a lot of smart money that comes into it.

So everything is mom and pop. So let me tell you how an escrow company starts, or a title company starts. It's ABC, he can graduate high school and his father learned about title, and he opens up shop because he knows people at church and synagogue and the PTA, and he has people coming into a title company.

That's how escrow companies are started to. They're mom-and-pop. They don't know how to scale a business; they don't know about efficiencies. All they do know is they go to the PTA and ABC's soccer game, and they're like, hey use this other guy. He is great, he has got an escrow company, and they're anywhere U.S.A. and they don't know how to scale. This is done by three or four different people in the U.S. Like you and I that have done it in a nice way. But they've done it now in a couple of counties and guess what? They're making a good living. Why do they need to invest more and more places.

It takes a little bit of time, a little bit of money and a little bit of patience. But the most important thing that is you need to find the talent. So like ABC rolling into town that he wants to find good escrow officers, you better know somebody in that industry that can attract them. That's also why it doesn't happen a lot, too. Because a guy like you, the moat for a guy like you is you have to get that first hire. First hire to come over, that's the moat. As simple as that sounds. Why this is not done in a bigger way for more money.

Tegus Client

That's really interesting. So you have the know-how, you create processes, you train other people in the processes. You take the knowledge base, and you replicate it over multiple people and improve on it and then you're off you're your agency.

Founder and CEO of Proper Title

And it took me a long time to get a couple of people to be like, that makes sense. Let's do it right. It's a lot of hedge funds in private equity, like I'll give you money in four years with sell. That's not how you build a great underwriter with title company. It takes a long time. And I'm also going to have escrow, too. Title company or an underwriter is a beautiful business. But it's so many different pieces that have to come together to be successful. And that's why the big guys stay big.

Tegus Client

Yes. Look, I hear you on that with the underwriting side. But the escrow idea is really interesting intriguing.

Founder and CEO of Proper Title

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It's awesome. If you were in the probate before and like those kinds of assets, you're halfway there. Like honestly, it's a lot of baby setting. And I hate to say it, 87% of escrow officers are female. They're drama queens. And remember, their entire job is to take all the stress of the transaction, swallow it and smoke and drink too much you have to work to get that out. Like that's what you're dealing with, and they're amazing at what they do, but they are difficult.

Tegus Client

That's very similar to probate. I mean, they're going through a life experience and it's a challenge. And you're dealing with the population as a whole, and you end up getting a lot of interesting people to put it mildly. But we dealt with it. And you create processes and you hire people who know how to deal with it, and you scale.

Founder and CEO of Proper Title

And the good thing about that, too, for instance, I'll say about Arizona, if you go to the Department of Insurance to get license, you have to get licensed as a title company, and you also need a license as an escrow company. So they are two very different licenses. The title license is a pain, like it's Department of Insurance, it's RESPA. You've got to go through all this background check. Escrow bonding and surety, they give you a license. Go out, you entertain and you're like, hey, this is ABC, you know her for 20 years, start sending us your escrow.

We'll throw good parties for you. And you know what, at the end of the day, I'll give you 20 basis points in our business of the year, I will take it \$10,000, right? You did a profit like that's what I would do. And you're smart enough to know where you put out 40 million shares, you give someone a basis point, they think it's a lot of money. At the end of the year, it could be \$5,000, \$10,000 for them. And on that \$5,000 or \$10,000, you've made \$1 million. And it can be anywhere.

Once you have the process in New York, you can start looking at counties and you're not doing the work of data, you're not doing the work of title. There are no claims, like there's no tail to it either. So remember, if a title company is a tail, someone can sue you. Once escrow is closed, you put it in your file, you're done.

Tegus Client

I'm assuming you haven't really seen people trying to get into escrow the way you've seen, they're trying to get into the title agency, correct?

Founder and CEO of Proper Title

They don't have a call like this. Like silly as it sounds, is because people don't know the difference between title and escrow, they think it's the same thing. It's not the same thing at all. And sometimes you have to get a title license and an escrow license, you have to have an escrow officer and a title officer. Two different people in that transaction. So no, I haven't. I'm like, hey, man, if you've done this before, do some research.

Tegus Client

Yes. I know a lot of people, even in the industry, people equate escrow and title agency as one. If you're doing them together, are you hamstringing yourself because you're forcing yourself to have to operate under RESPA with escrow when you wouldn't have to, if you just had escrow?

Founder and CEO of Proper Title

Let me give you a perfect example of that. In California, I used to have a title company and in my title company at First American, I had escrow because I had escrow, I mean a title, that had escrow, I was governed by the Department of Insurance, which is RESPA. And CFPB and trade all of that. I had independent escrow companies in Southern California that would govern like I said, Department of Corporation that were governed by none of that

So to answer your question, I was so hamstrung because my escrow fell right underneath my Department of Insurance because I was a title company, issuing title policies, that the woman down the street can charge whenever she wanted, do whatever she wanted and be where ever she wanted, and I couldn't. So to answer

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your question with a little story, you're absolutely right.

Tegus Client

That's really interesting. This was very insightful. Thank you for taking the time to speak with me today. Have a great rest of your day.

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