Brighthome, Inc. - EVP - National Agency Manager at Alliant National Title Insurance Company

Interview conducted on December 06, 2022

Topics
Joint Ventures (JVs), Title Insurance, Real Estate Agents, Production Systems, Margins, Regulatory Compliance

Summary
A Tegus Client speaks with an EVP - National Agency Manager at Alliant National Title Insurance Company about the title insurance industry and starting a business within it. The EVP explains the use of joint ventures (JVs) and affiliated business arrangements (ABAs) to create additional revenue streams, and the difference between the two. They advise against creating a JV without prior experience and suggest starting with a title agency, finding a local or state title association for support, and buying an existing operation with a management team in place for quick growth. The expert emphasizes the importance of having an active and energetic staff, determining the focus of the business, and giving equity to young-ish employees. The expert also advises on bringing in business for a new residential resale company, explaining the different models for title agencies and underwriters, and the importance of regulatory compliance costs and cyclical industry nature. Finally, the EVP explains the start-up costs and potential returns for a business in this industry, noting that it takes at least $0.25 million and six months to break even, and at least two years to get a return on capital.

Expert Details
Executive Vice President - National Agency Manager at Alliant National Title Insurance Company Expert understands and has 30 years of experience with the margins, pricing laws, and competitive landscape within the title insurance underwriting industry, and understands the barriers to entry for new competitors within the title insurance underwriting industry.

Expert is the Executive Vice President - National Agency Manager at Alliant National Title Insurance Company. Reporting to the CEO, the Expert oversees the agency operations within their 7 locations in 5 states. The Expert manages a team of regional managers that oversee a team of 20 employees each. With this, the Expert has full P&L responsibility for all of these locations.

Prior, the Expert was a State Representative, at the Texas House of Representatives, leaving January 2019. In their capacity, the Expert served on the Land and Resource Management and Small Business and Economic Development Committees. In their capacity, the Expert can speak in great detail to the legislation and regulation behind RESPA.

Q: How familiar are you with the margins, pricing laws and competitive landscape within the title insurance underwriting industry?
A: 30 years of experience in those areas.

Q: Can you speak to the barriers to entry for new competitors within the title insurance underwriting industry?
A: Yes, it depends upon the state and the kind of business they want to do. It can vary on the agency or underwriter.

Tegus Client

Thank you for taking the time to speak with me today about the title insurance industry, particularly, about RESPA and the workarounds that have been effective and how RESPA would change over time. It's just creating a bunch of rules and just making it slightly more difficult than everybody seems to know and I acknowledge that. But the whole point of this is there's a consumer who's getting to charge a lot of money for a service that is much more expensive than it needs to be, but it's necessary.

And they're not the ones making the decision, even though they technically are, everybody knows realistically, they're not. And it's going to whoever can create a JV that appeals to the real estate agent or some other form of compensation that they could say is not directly tied to that one transaction, but it's tied to the transaction. So what does it workaround? And how is it going to change?

EVP - National Agency Manager at Alliant National Title Insurance Company
It's interesting because you see these workarounds pop up anytime and they tend to get more pronounced as the market contracts, where real estate agents, real estate brokers, lenders, builders are looking for additional revenue streams when their main line of revenue is shrinking. I think you're going to continue the JV set up, the affiliated business setup. This has been around for Jiminy Christmas, first when I remember set up was probably 25 years ago.

And they're really not much different now than they were like 25 years ago, with the exception that now with the barriers to entry in many states being lower, you're actually seeing individual real estate agents getting into the joint venture business, where it used to be a co-lo banker brokerage or a Keller Williams brokerage. Now you have large individual real estate agents or real estate teams, they may have two or three agents that work with them that are creating these joint ventures predominantly with the Fidelity, First American, Stewart and Old Republic, what we call the big four in the industry.

Tegus Client
They're creating directly with the underwriters?

EVP - National Agency Manager at Alliant National Title Insurance Company
Absolutely. They're creating the underwriter will write it, and they will be a "partner" and I put partner in Air Quotes because in all actuality, they are the ones that are doing the work. Now it could be the underwriter or it may be XYZ Title company, a title agency that goes out and does this. They are rampant across the country.

In fact, we just helped a title agency create two new JV setups in one case, it's one realtor. And in another case, it's two realtors, but the title agent will just call ABC title. So instead of being ABC title that's getting the order, it's ABC one and ABC two that's getting the order and ABC title is still doing all the work. And it will still continue the success of those types of arrangements are very sketchy. And they're sketchy because the individual producer or producers, they tend to run through the real estate business about every seven to ten years. And so they're short-lived. So instead of say catch there's short-lived.

Tegus Client
Got it. So when you say ABC one and ABC two in your example, are there title agencies that literally will create a JV for every realtor?

EVP - National Agency Manager at Alliant National Title Insurance Company
Yes. I mean there is one who is setting them up. I think he's got nine, maybe 10 now that are with individual realtors. And if a realtor is not big enough to do it by themselves, there may be two, three or four realtors that get together from within a brokerage company and do it and create it themselves. So instead of having just two partners that may have three, four, five individual partners.

Tegus Client
What are the terms of these JVs usually?

EVP - National Agency Manager at Alliant National Title Insurance Company

They tend to be 50-50 arrangements to begin with, and by 50-50, meaning the house gets 50. And then if you've got one realtor, he gets 50 or two realtors, they each get 25, three realtors, they get 12.5% or four realtors get 12.5%. But the house typically retains 50%.

And that's really done in order to maintain control over the quality and how the product is actually produced. I would go 99 times out of 100 in those individual real estate agents or even the brokerages, if they do it with the brokerage, they have absolutely no idea how to run a title company. They don't want to have any idea of how to run a title company. They just want to get a portion of the settlement fee.

Tegus Client
Right. And so just to make sure I understand the math of it. So the settlement fee, I know I guess it varies a little bit by states that we're talking.

EVP - National Agency Manager at Alliant National Title Insurance Company
It varies a lot by jurisdictions.

Tegus Client
We're talking like though, is this fair on an owner policy like anywhere between 40 basis points and 100 basis points of the purchase price?

EVP - National Agency Manager at Alliant National Title Insurance Company
No. That's too low. I mean, you're talking, let's use actual dollars, a $2,000 settlement fee or a $2,000 title premium or they're set up differently, whether it's just off of the total revenue of files or portions thereof. Let's say it's $2,000. The house gets $1,000 and the joint venture partner gets $1,000.

Now if the joint venture partner, there happens to be three of them, then they divide up that 50%. But in order to keep it legal, they have to do it based on the ownership percentages of the company. They can't say, well, there's three of us and I did 80% of the business, so I get 80% of the profit, it has to be based on 1/3, 1/3 and 1/3.

Tegus Client
Right. But if you're doing a JV for each realtor it kind of solves that problem doesn't it?

EVP - National Agency Manager at Alliant National Title Insurance Company
Right, it completely solves that problem. And we've seen this not only with realtors, but we've seen it with builders as well, where a builder may not be large enough to have their own title agency. But if there's three other builders that they trust, the four of them get together with the house and the house gets 50% in those.

And actually, a lot of builders, I've seen them where the house may be a managing general partner that has a smaller percentage, because the builders tend to be able to control the transaction much more so than the individual real estate agent or the brokers. And that's where most of these joint venture projects fall apart.

So we have a joint venture title agency between a couple of realtors and ABC title. If I'm a real estate agent that's on the other side of the transaction, I sure don't want my transaction for my buyer, my seller going to your title company. I'll take it anywhere else other than your title company that you have an ownership in. Because it's the title company you own, if I'm doing right by my customer, that title company is supposed to be a disinterested third party, and there's nothing disinterested about your title agency.

Tegus Client
But why would you care? So if you're, let's say, the seller's agent and the buyer's agent, is a JV owner of a title agency. And buyer's agent wants to use buyers' agent's title agency. Like it doesn't change like the title agent doesn't really do anything. They're just getting a fee for basically being there. That it's just being underwritten by a big four company and you could use an escrow agent that everybody trusts, so what could go wrong?

EVP - National Agency Manager at Alliant National Title Insurance Company
What could go wrong? If something goes sideways with the transaction and my seller gets screwed somehow, if I'm looking at it, I've allowed them to go to a title company that really wasn't disinterested and in the highly litigious states, I'm getting sued by my buyer, and now I'm getting sued soon under DTPA on top of it.

Deceptive Trade Practices Act. And what it allows is for treble damages. So whatever I've been damaged I can now get triple damages for it. So that's one reason. Another reason is that real estate agents are highly competitive, and I don't want Mr. real estate agent over there, benefiting more than I'm benefiting. So I would much rather take it to a disinterested company.

I've seen it all over the country. One of the largest, it is actually owned entirely by real estate agents. It's not a joint venture. It's a true AfBA, and they have trouble with other real estate agents allowing transactions to close elsewhere because it's a competing brokerage.

Tegus Client
Great. Can you maybe explain that or between ABA and JV?

EVP - National Agency Manager at Alliant National Title Insurance Company
Okay. And there an ABA is one where the affiliated business arrangement where it's entirely owned by a producer, a real estate company, a builder. They own the entire title operation. A JV is one where it's just as it sounds, it may be an underwriter, a title agent that's one piece that's actually closing everything and then the producer is the joint venture partner that participates. That's the difference.

Tegus Client
I understand it. Is it just the ABAs that have the requirement to have a certain percentage of your business be from nonaffiliated entities?

EVP - National Agency Manager at Alliant National Title Insurance Company
No. There are some states that have requirements that are 25% requirements or 50% requirements, and those apply to both AfBAs and joint ventures where you have to have a business mix. You can't be the sole producer of business for your agency or for your title company you really see that back west, Arizona, Nevada, Utah, California, have those kind of statutes.

Tegus Client
Okay. So maybe if someone decided they were going to go start a title agency and like what would be the most effective way for them to grow as quickly as possible to just create a process to be able to make JVs with realtors in a very streamlined way.

EVP - National Agency Manager at Alliant National Title Insurance Company
In my humble opinion, no.

Tegus Client
What would be the best way to set an agency?

EVP - National Agency Manager at Alliant National Title Insurance Company
It's been tried by people who are very experienced, and they have trouble with even big money folks, HomeLight, for example, is a real estate brokerage company completely vertically integrated with their lender. They try to control the entire real estate process.

Even they have trouble like getting their own real estate agents to use them as a title company. The JVs, the numbers get so skinny because believe it or not, there is quite a bit of work that goes into producing a title commitment and a closing. And depending upon what state you're really looking at starting in, in some areas, it's very heavily regulated, such as New York.

Some states it's nonexistent like Indiana. So it varies depending upon where you're actually looking at starting your title agency. You go to Minneapolis, Edina Realty. They are one of the biggest title agencies, Edina Title is one of the biggest in all of Minnesota.

And when I say a real title company, a real closing company, and they hired really good people, and they serviced them. Another one that was a big one that just never made were several co-lo banker, I mean one of the largest real estate companies in the country was never able to really get their AfBAs or their joint ventures, they tried it both ways. They just weren't able to get the buy-in from their real estate agents.

Tegus Client
So if someone wanted to start a business within this entire value chain, what aspect of it would you say is the most attractive? And how would one break in?

EVP - National Agency Manager at Alliant National Title Insurance Company
What state would you be interested in to start with? That would be the very first thing you ask.

Tegus Client
Let's say probably something in the Northeast.

EVP - National Agency Manager at Alliant National Title Insurance Company
Okay. If I were going to start a title company, I would up there, I would do it in Connecticut as opposed to New York. New York has some extremely difficult requirements to get my feet wet. The other state up there that's actually pretty inviting is Rhode Island, believe it or not.

The thing that shingle allows you to do, it allows you to do some things that even though you may have all the knowledge in the world, that shingle allows you to be a closing attorney as opposed to having to start a title agency. So here's what I would do if I was interested in starting a title company.

The first thing I would do is I would find my local or my state title association. Connecticut, there's actually a company up there called Connecticut Attorneys Title Insurance Company, and a great outfit. I would talk to their version of me, because we're not licensed in the Northeast, I would talk to them. And I'll go, I'm interested in starting a title agency here in the Northeast starting Connecticut, then move to the Rhode Island or into New York.

He would be able to tell you exactly how to set up a title agency. And they have the software and the back-end support you're going to need, but that's the first place that I would go if I were starting a title agency in the Northeast, is CATIC. They've been in business for 90 years, a great outfit, great underwriter. They specialize in but smaller title agency. It doesn't mean that they don't have some very large agencies. Madison Title is one of their title agents up there. It's a like $70 million title agency, but that's what I would do.

Tegus Client
Okay. Do you think that the agency area of the business is the best area to be kind of pursuing right now as an entrepreneur?

EVP - National Agency Manager at Alliant National Title Insurance Company
It is, by far and away, the most efficient way that you could start your own underwriter if you wanted to put in. When Alliant National was started in 2007, took about $6 million to $7 million overall, by the time it was all said and done, even though it only took $2 million of capitalization. But starting an underwriter, you have to work through the reinsurance process.

You have to work about with lender acceptance, all types of regulatory side. The title agency side is by far and away the most efficient way to get into the title industry. Then if you have friends that are candidates to be joint venture partners, then you bring them in once you have your agency setup. The last thing you want to do is to try and create a joint venture where neither side actually has been in the title industry. That is a recipe for disaster and a way to lose all your money.

Tegus Client

So I guess that creates kind of a bit of a chicken and an egg problem. Maybe the way you break out is by bringing on people that have done it.

EVP - National Agency Manager at Alliant National Title Insurance Company

I would certainly want to make sure I have an equity partner that has, in some way, shape or form been in the title industry. But that the most efficient way, the other way is you could buy a title agency. There are quite a few of them out there that they've come off the best years that they've ever had. The market is now returning to equilibrium. I won't say it's falling or it's just returning to an equilibrium stage where buyers and sellers, you don't have this white hot seller's market.

And some of them have made a ton of money over the last three or four years, and they really don't want to go back to the way it was in '18 and '19 and '17 where they were making good money. But it wasn't like the late in the late '19, 2021 and early '22, where you could just have a pulse and make money in the title industry. So there you could buy it as well, depending upon your financial resources. And some of them will sell, I think, we're actually seeing some that are trading at decent prices right now, which is typically about five times forward-looking earnings is what title agencies and title companies trade for. Title agencies tend to trade between five and eight times forward-looking earnings.

Tegus Client

Got it. Assuming that raising the kind of capital that you mentioned for Alliant National wasn't an issue at all. You operated under that assumption, do you think it would be more interesting in the Northeast to create an underwriter or an integrated company that does underwriting agency altogether or just to do the agency?

EVP - National Agency Manager at Alliant National Title Insurance Company

I would do the agency first 100%. You can always create an underwriter. And what you'll find is there are a lot of large companies who have created their own underwriter in the last five years. And one of the challenges you have with an underwriter is you have this concept called captive capital. So any time an underwriter where a policy is issued, you have to set aside a certain amount for claims reserves. It's called capital and surplus.

And that capital and surplus once it goes into that side of the balance sheet, you can't just move it out. You have to get regulatory approval. They will want to see your total amount of liability that's outstanding in your total policy pool, and you track that, it's basically a 15-year track record before it's called the statutory premium release, we call SPRs, statutory premium release, SPR.

And that SPR is done once a year. Claims do come in, that premium release comes back to the company. And for example, over the last three years, we went from $10 million capital surplus to $30 million, and that capital is captive. We can't just dividend out $20 million. We have to get regulatory approval and with the total number of policies that have been issued over the past two years, the regulator is, "look, no, you can dividend out $3 million, $4 million, $5 million, but you can't take the entire amount".

So you have this captive capital that makes it very difficult to monetize. You can't just say, all right, well, I've got $30 million of capital surplus, pay me five times that for $150 million, it doesn’t work that way. It's basically dollar for dollar because you're trading cash for cash.

Tegus Client

Got it. So what are the most effective ways that you've seen for an agency business to succeed and grow and achieve kind of scale in a quick way?

EVP - National Agency Manager at Alliant National Title Insurance Company

The best ones I have seen buy an existing operation that has a management team in place that maybe their ownership was too restrictive. Their ownership wasn't aggressive enough and by aggressive enough, meaning on the sales and marketing side.

I'm not talking on the risk side that they may have expected their own, so somebody owns them and they don't do anything. The ones that have grown the fastest have purchased a smaller title agency with plenty of capital behind them to be able to invest in new software, in new locations recently, their document centers and hardware were all at least eight to ten years old, all of them. The computing power was slow and there was no efficiency. So that some go in and buy that one, upgrade their software, hardware and actually invest in the company and turn it around.

Tegus Client
Yes. But let's say, take acquisitions off the table and just say if you're going to build something from scratch. Like how does one win business? Is the JV model the most effective way, real estate agents?

EVP - National Agency Manager at Alliant National Title Insurance Company
Whoever your staff is, it might just be one person. The best ones have very active energetic, young-ish staff that are not burned out. That's one of the biggest mistakes people make when they start the company in our industry is the first people they hire, if someone in their early 60s. That's just grinding it out day by day or maybe even in their late 60s and with the hope that, all right, they'll still generate their business and when they retire, I'll still be able to handle it.

The young-ish, the 40-ish people that are trying to make a mark, giving those folks some form of equity whether it be in the form of options of those are the guys that grow and grow fast. That's number one. Number two, you have to determine what you want to be. Do you want to be a residential resale company?

Or do you want to be a production sweatshop of refinance, which right now, you don't want to be in, but I guarantee you the first part of 2024, middle of 2024 as everybody in 2023 has bought houses and at 7% interest rates. And interest rates go down the middle of '24, maybe the latter part of '24, all those folks are going to refi.

This is my fifth cycle, it's exactly what will happen. When those interest rates fall a little bit, you'll start to see refinances come back sometime late '24, early '25. So if you want to do that or do you put a new commercial business. Because there are folks that just focus on commercial, those that focus on commercial and make it tend to be the most profitable in the industry, whether it's a Madison Title, a Heritage Title, a Republic title, Callaway title. They're all over the country.

Tegus Client
So let's say, someone was going residential resale, not refi, and they hire a bunch of young energetic go-getters. How do they bring in the business? What is it that is going to be the factor that drives business to the new company versus whoever it is that the realtors are referring to now?

EVP - National Agency Manager at Alliant National Title Insurance Company
Almost every realtor is willing to give the new guy a shot. It's what you do with it once the order is in-house. When I ran a title company, and I was the new guy, almost every real estate agent that was there would give us a shot. And some of them, we did extremely well with how we handled their transaction, what I tried to do is before anyone ever brought us a transaction because everybody says, well, we provide the best service, not everybody provides the best service.

What I would do is I would ask how do you want us to communicate with you? How often do you want us to communicate with you? Some realtors want to know every step of the way. Others just want to know when am I getting my check. I just don't want any surprises. It's what you do with it once you get it, believe it or not, buying it doesn't work. Because there's always somebody else that's going to offer something better. This goes back to the days of closings that people were giving away shot guns.

Those were actual closing gifts. So when you're salespeople bring in someone, they really have needed to qualify who they are because if it's somebody that's brand new, that's going to close one deal and then be gone, you don't want to spend your time doing that. But if it's somebody that looks like they're going to have staying power, those are the folks that you want to cultivate.

Some of my largest customers I had were folks that closed one or two deals a month, not the teams that we're closing eight or ten deals a month, those folks have already got their team set. And unless you were able to be another ender on that, you weren't going to get them, they weren't going to be there. But it's what you do with it once you get it inside.

Tegus Client

So maybe more basic blocking and tackling question. So let's say, you start this agency, you hire the right people, energetic, younger kind of go-getters. They do what you suggested and kind of make sure they understand how the realtor wants to be communicated with and achieve that properly. And they have a relationship with a big underwriter. What is it that they're actually physically doing? Do they produce the pit report?

EVP - National Agency Manager at Alliant National Title Insurance Company

With an underwriter. It doesn't have to be one of the big ones, because we're a small underwriter. I think we're ninth or 10th in the country, $160 million, give or take, here's what I do not know. In some markets, I don't know what the actual on the ground is. Are the attorneys actually closing? Or is the title agency doing the actual title work?

Or is the attorney doing the title work in the agency closing. There are different models for that. For me, I would always be the one that would want to control as much of the transaction process as I can, which is from the contract coming in and closing it. And you may have to buy the production from your underwriter or you might be the one who actually does your own production. They're different models for that.

Tegus Client

Okay. And are there different models even within a single state. So like within Connecticut, let's say, there are going to be some agencies or they buy the production, meaning buying the title report from the underwriter and some title report themselves.

EVP - National Agency Manager at Alliant National Title Insurance Company

Correct.

Tegus Client

Does an underwriter feel comfortable underwriting a report that they didn't write?

EVP - National Agency Manager at Alliant National Title Insurance Company

Absolutely, do it every day and twice on Sunday.

Tegus Client

Okay. How do you get comfortable that they did the work right, you're ensuring somebody else's work?

EVP - National Agency Manager at Alliant National Title Insurance Company

Because we have an agency contract with them and when I say we, I'm saying the underwriters in general. I'm not saying just Alliant National, but underwriters in general vet their title agencies. And so a brand-new start-up title agency probably, don't get me wrong, probably not going to trust the title product that's being generated. Why? We don't know you. We don't know who your staff are. Now if you hire someone who's been in the industry a long time, that is well known from a production standpoint, absolutely. We do it all the time. The industry itself is fairly small.

And so if you hire someone that has a poor reputation, it's going to be much more difficult for your underwriter to accept that product. But you hire someone who has a knowledge of the business with a good reputation. We underwrite them, like I said, every day and twice on Sunday. And so does every other underwriter that's out there.

Tegus Client
Got it. So if someone was starting their own company and didn't have somebody who was a well-known person within the production standpoint. So they'd be purchasing from the title underwriter the title report. And they have this young energetic sales staff that realtors would want to give a chance to, what they are actually doing aside just kind of managing all sites talking to the escrow agents, talking to the realtors.

EVP - National Agency Manager at Alliant National Title Insurance Company
You have to close it. Under RESPA, you have to provide one of the core services, which is the search, examination, or closing. And that's this ties it all the way back around to where we started. Under RESPA you have to provide a core service. And so if you're providing the title report, that's one thing. If you're examining the title report and generating the commitment, that's one thing. If you're closing, that's another thing, closing and funding.

Tegus Client
So the closing and funding being escrow?

EVP - National Agency Manager at Alliant National Title Insurance Company
Correct. And that's where you would have to have some sort of production system, I want to say, production, a closing system, an escrow system. Some of the large ones that are out there, SoftPro, RamQuest, Qualia, Landtech, I mean there's half a dozen of them out there. And you would want to do something that works for you that's also scalable because a product that works for a two-person closing office may not work for a multistate 30 office operation.

Tegus Client
So what do most start-ups do, start-up agencies when they're starting up, what do they do? Do they do search, examination or closing?

EVP - National Agency Manager at Alliant National Title Insurance Company
They typically close. It's the easiest to control the product.

Tegus Client
Okay. So what you're creating is a title agency and escrow agency in one?

EVP - National Agency Manager at Alliant National Title Insurance Company
Correct. Those are used interchangeably in the industry.

Tegus Client
I kind of thought that there was an escrow agent and a title agent, and they were different people.

EVP - National Agency Manager at Alliant National Title Insurance Company
They're normally used interchangeably. In fact, even the use of the word escrow agent is not permitted as part of the creation of the corporation documents. You have to be a title agency or a title underwriter, you can't be an escrow agent or something like that.

Tegus Client
Okay. So you start this business, there may be some regulatory requirement, but it will be substantially less than being an underwriter. You'd form a relationship with an underwriter and purchased the title reports from them, you'd license or purchase escrow software, SoftPro, RamQuest, Qualia or Landtech.

And you'd start marketing yourself to realtors and saying we provide great service and actually delivering it. They give you a chance that you'd actually deliver it, keep them informed, have whatever communication tools they would want. And then you would physically do the closing. You would have a bank account that was opened to deal with escrow, and receive funds and wire out funds and just be very careful and make sure that you do it all correctly.

EVP - National Agency Manager at Alliant National Title Insurance Company
Correct.

Tegus Client
And if you're doing that and you're doing it consistently, you start forming a reputation and you start growing.

EVP - National Agency Manager at Alliant National Title Insurance Company
That is correct. You walked A to B, B to C, C to D, you just walk right down the line, that's exactly what you do.

Tegus Client
Okay. And now in terms of like the margins and kind of rough economics of one of these businesses. So is it fair to say whatever the title insurance premium is that's regulated by the state. You kind of think of it as you keep maybe 85% of it and give 15% of it to the underwriter. And within that 85% that is your revenue, you're having to pay these young talented people who are dealing with realtors, your advertising costs to the realtors and the software cost that we discussed in the cost of actually running in escrow?

EVP - National Agency Manager at Alliant National Title Insurance Company
Correct. And the other cost of your regulatory compliance costs, all your normal costs. And what you will find is typically in an agency operation. After it's been running for a couple of years, is what you'll find, you're going to lose money in January, February, you'll make money March through August. You'll break even in September, probably you may breakeven in October, you'll lose money, November, December, January, February. That's just the cyclical nature of the industry.

Now when you hit a refinance boom like we've had the last two and a half, three years, you should make money every month going through. I'll give you some operating metrics to make sure that they're close to otherwise, they won't make money. You need, for every employee that you have, to be opening somewhere around 16 to 17 orders per month, and you need to be closing somewhere between 12 and 13 per month. But you're going to have a bust out rate. And you want to keep that bust out rate under 25%.

Tegus Client
So obviously, it depends on how big you want to get and how much you want to grow. But what's a range of what you think start-up costs are for this kind of a business? And what kind of returns can one make?

EVP - National Agency Manager at Alliant National Title Insurance Company
Whenever I opened an office it was always at least $0.25 million. When I opened an office from the ground up, it was $0.25 million. And it took six months before it would take three months for people to start to use you, stuff starts to close after about four, five, six months. So once you ramp up, you should be breaking even in an office after about six to seven months.

Your margins are going to be entirely dependent upon the type of business that you do. I could tell you, there are areas of the country where you only have to close about seven or eight, maybe six or seven files in a month to make a 10% margin. There are others where you have to close the 30 in order to make a 5% margin. And so if you're in one of those markets that's seven to ten and you close 15, your margin may be 15%, 18%, maybe even as high as 20% for that month. It truly depends upon where you open your agency and the size of the average transaction size that you have.

Tegus Client
So maybe instead of thinking about it as margin terms, which is really a function of how profitable you can make your revenue. What about return on capital terms. So you spent $250,000 to open this office, and it took you six or six or seven months before you're breaking even. Once the business that office is kind of

humming.

EVP - National Agency Manager at Alliant National Title Insurance Company
It will take at least two years, it will take 18 months to get that return of capital.

Tegus Client
Enough before you're making anything and then month seven to 18, you get your $250,000 back. And then thereafter, you're probably making how much a year like $200,000 to $250,000?

EVP - National Agency Manager at Alliant National Title Insurance Company
Again, I had offices that just barely broke even all year long because I was overstaffed. There comes a point where economies of scale kick in and if I've a little company, I say, she's now got 25 employees. She probably makes $0.5 million a year with one office location.

But I know others that have multiple locations that still don't make any money because their expenses are out of whack. There's a lot of people go in and they try and hire people. And if somebody is making $75,000 and they'll say, all right, I'll pay you $100,000 to come to work for me and bring your business with you. Here's another number you can use.

If a person says, I'm doing $50,000 a month in revenue, if they tell you $50,000 you can count on $20,000 because if you recruit him away from somebody else, whoever you're recruiting him away from has already got a leg up on you, they're going to have other people that are going to be banging on them to say, hey, I want you to stay here. So if somebody is doing $50,000, you can count on $20,000. If they say they're doing $100,000 you can count on $40,000.

Tegus Client
Yes. How do you think this business kind of compares to this industry kind of compares to others? Do you think that this is average in terms of attractiveness to start as an entrepreneur above average, below average, way above average? What would you pay, describe it?

EVP - National Agency Manager at Alliant National Title Insurance Company
I look at it first on the barriers to entry. It is a low barrier to entry industry. It really is to actually start up. So from that standpoint, it is very attractive. You don't have a franchise fee, you have to pay the underwriter for the risk side that, that underwriter also provides a great amount of underwriting support, closing support from the standpoint of making sure that your closers are doing things the right way.

So from a barrier to entry, it's very good. Margins are average. When you compare it to a technology type of company, they are woefully short. But then again, you don't have the capital-intensive portion of the capital intensity that you have with a technology start-up. It's also from a knowledge base. Once you understand the real estate ecosystem and the transaction process and what actually goes into closing, you can hire people with the expertise that you may not have as a business owner.

So again, from the barriers to entry side, it's really pretty simple to enter because it's so easy to enter, it is hypercompetitive. I can't tell you the number of people we've seen in the last three years that have gotten in the business thinking this is the easiest thing in slice bread right up until about four months ago when they're going, how are we going to keep the lights on.

Tegus Client
Right. This is super helpful. I really appreciate it. thank you for taking the time.
