State Farm - Former VP and Business Development Officer at Old Republic National Title Insurance

Interview conducted on December 06, 2022

Topics

Title Insurance, Regulatory Requirements, Challenger Product, Real Estate Industry, Profitability, RESPA Regulations, Market Share Capture, Marketing strategies

Summary

A former VP and Business Development Officer at Old Republic National Title Insurance spoke with a Tegus Client about the title insurance underwriting industry. The expert explained that the industry has created its own moat from a regulatory perspective, with each state governing the issuance of title insurance. The big four underwriters have essentially gobbled up as much market share as possible, and smaller players have never been able to crack scale due to getting approved by different states and having capital requirements. The expert also discussed the value of title plants and the speed of title searches. The Tegus Client asked about the margins for underwriters and agents, and the expert explained that the industry operates at a 30-plus percent margin for underwriters and that agents keep a lot of fees for themselves. The conversation also touched on RESPA and the workarounds used to pay for referrals. The expert advised the Tegus Client to consult a lawyer for a detailed response on acceptable RESPA structures. The expert suggested creating a national title agency quickly and building relationships with realtors and consumers to build up a book of business.

Expert Details

Former VP and Business Development Officer at Old Republic National Title Insurance. Expert understands the margins, pricing laws, and competitive landscape within the title insurance underwriting industry, and the barriers to entry for new competitors within the title insurance underwriting industry, as the expert has been in this industry for 10+ years.

Managing Partner at ResiTitle PLLC.

Former VP, Mortgage Strategy at Ocrolus, leaving in March 2022.

Former SVP, General Counsel at Evolve Mortgage Services, LLC, leaving in August 2021.

Former SVP, of Product Strategy at Pavaso, leaving June 2019. As the Head of Product for Pavaso, an Old Republic Title company, The expert was responsible for strategically designing, building, and delivering critical technology solutions for the real estate finance industry. The expert is highly familiar with the eClosing space.

Expert understands the margins, pricing laws, and competitive landscape within the title insurance underwriting industry, and the barriers to entry for new competitors within the title insurance underwriting industry, as the expert has been in this industry for 10+ years.

Q: How familiar are you with the margins, pricing laws and competitive landscape within the title insurance underwriting industry?
A: Very familiar.

Q: Can you speak to the barriers to entry for new competitors within the title insurance underwriting industry?
A: Yes, I have been in this industry for 10+ years.

Tegus Client
Hello. Thank you for taking the time to speak today. I am conducting some research on the title insurance underwriting industry. To start off, could you please give us a quick overview of your background and experience in this space?

Former VP and Business Development Officer at Old Republic National Title Insurance
Yes. I was working with Old Republic Title, which is the third largest underwriter, in their corporate headquarters for five-plus years and doing a lot of different areas from underwriting, commercial to residential to claims processing. I'm an attorney by the way. On the technology side, trying to drive innovation. I actually started their venture efforts. I started and spearheaded that one back in 2016, where my premise was, hey, I know there's a lot of money pouring in from the VC community into PropTech and I figured Old Republic Title has a 15% national market share would be a great strategic partner to try out technologies that they're investing in.

So I met with dozens of different VCs and each one said, yes, we want to work with you. So I got to learn about a lot of the companies that are now very present like the Doma, I can give you my background there with them in their earliest stages and got to see how they were cultivating this concept and the entrepreneurial idea that they wanted to do and how we were able to potentially help them.

I've moved on and did a number of other things. I'm now jumping back into the title space. I've started a law firm that is kind of the attorney network behind the attorney opinion letter challenger to the title space. Fannie Mae, Freddie Mac, and the VA have approved the use of this product as an acceptable alternative. And lenders are really interested despite the environment that we're currently in, we've been able to sign up a number of lenders to the program in an attempt to offer consumers a cheaper alternative than the title.

Tegus Client
Yes. So maybe just one clarification question. You said with the venture efforts, that was at the Old Republic?

Former VP and Business Development Officer at Old Republic National Title Insurance
Correct.

Tegus Client
And when you mentioned a lot of money pouring into PropTech. What's PropTech?

Former VP and Business Development Officer at Old Republic National Title Insurance
PropTech, property technology. It's the term that people are using, AdTech. So it's just the term that the industry has been using to describe real estate technology.

Tegus Client
Got it. I recognize there've been four companies that have the 90% market share and have had it for a really long time. What do you view as the real barrier to entry that prevented anybody else from breaking in?

Former VP and Business Development Officer at Old Republic National Title Insurance
I think the way the industry has set itself up is they've kind of created their own moat from a regulatory perspective. Each state governs the issuance of title insurance. And so in order to play in that sandbox, you need the state to approve you as an underwriter. And so from that perspective, the big four have essentially gobbled up as much market share as possible.

And while there are a number of smaller players like WFG, Doma, and others, they've never been able to crack scale because of getting approved by different states, having the capital requirements, meaning the reserves that you need to hold as an insurance company, you need to have hundreds of millions of dollars in reserves in order to be able to write and continue to write more and more and more title insurance.

And so the big four have really kind of cornered that market. If you're able to come in with hundreds of millions that you can just park in reserves to pay for claims that may arise, then you can really make a splash. The other big reason why the big four have kind of maintained their hold there is because probably 55-plus percent of the market revenue is driven through independent agents, the small mom-and-pop title companies, and larger national organizations.

But they're independent, and they're the ones that have the relationship with the realtors at a local level, the lender, the loan officers at the local level to originate and source transactions. Most people don't realize a company like Old Republic Title is extremely agent-centric where they generate 80-plus percent of their revenue from independent agent referrals. And the way the business works is the local mom-and-pop title company.

They're the ones that originate and collect money at the closing table to pay for their services. And then they remit only 15% back to the mothership. So a company like Old Republic, you originate a transaction, you collect at the closing table, let's say, it's $4,000 for all of your fees. You only remit 15% of that back to Old Republic Title. And so the large underwriters have kind of staked their position as the popular ones to turn to if you are an agent. Now doesn't say that another entrant can't come in and with a marketing blitz to start attracting independent agents, but you're working against an industry that solidified itself over decades.

These agents have long-standing relationships with the agency teams at the Old Republic, at Fidelity, at Stewart, at First American. And they get to choose how they distribute their orders. And you can't really compensate them under federal law to try and convince them, hey, I'll pay you $30,000 a month if you push the volume to me, that's illegal under RESPA and other federal statutes and regulations.

So you're really doing your best through gloved handling and building relationships to try and convince these thousands of independent agents across the country, hey, work with me? Don't go to Stewart, don't go to Old Republic. So it's a very deep moat that they've built to protect themselves.

And this is going to go back to what I'm working on, which, again, I don't know if you want to talk about it or not, I'm happy to. But the attorney opinion letter product that Fannie and Freddie and the VA have approved, it's a different product altogether. It's the same process, the same widget if you will, to build an attorney opinion letter.

But instead of being issued through a registered and licensed title agent and a title insurance policy being issued. What's being issued is attorney work product. And attorneys are already governed in every state. So it's a challenger product that is kind of sitting outside this moat. And I believe, and this is just obvious opinion, but it's the first challenger to come around that completely sidesteps the moat and the consumer able to get to the lender and the ultimate customer in a way that title insurance and that industry can't readily stop.

There aren't the normal barriers to entry that you would otherwise see in the title space because it's a product that's already governed by state law and state regulation. And so I'm happy to dive further into the opinion letter product to explain how and why it differs and why it's a differentiator and potentially a disruptor.

Tegus Client

Is that a replacement for a title examine report? Or is it a replacement for title insurance, the attorney opinion letter? It's a replacement for the insurance? So what happens as an owner policy or a lender policy, instead of having title insurance, I got the opinion letter and there's a title issue, who's paying?

Former VP and Business Development Officer at Old Republic National Title Insurance

So behind the attorney opinion letter sits a transactional E&O insurance policy. So if the attorney screws up, then it's the attorney's work E&O policy that would handle whatever claims that come in the door. So you can obtain attorney E&O policies, frankly, there are dime a dozen.

There is a handful that is aware of how we're structuring this and have agreed to take on a little more risk given the number of transactions that we would be doing, and the amount of coverage required. As an attorney, I can say, your normal per-transaction limit isn't nearly as high as what we now have in place. And so we had to go to different carriers that are better capitalized than even First American, Fidelity, Old Republic, et cetera, to explain to them, here's the risk.

Here's what title insurance does, the likelihood of risk and the likelihood that the risk will occur. And we've gotten them comfortable to a point where we're able to boil it down to a premium per transaction that they're okay with. The average claim rate in the industry is somewhere between 3% and 5%. Maybe it's 6%, somewhere in that range. But the amount that you would have to pay out is typically measured in the thousands.

It's very rare that a really big claim comes in that causes a complete loss of title. And so we were able to convince the E&O carriers out there to give us a go. But to your earlier question, the process is essentially the exact same thing. We still need to do a search and do an exam, an abstract, review it with a title underwriter, review the land records to make sure there are no liens or other claims, easements, you name it.

And instead of producing a commitment or a title policy, we're producing an attorney opinion letter. So it's really the insurance that is replaced by the opinion letter. And then the transaction closes in a normal way. So we've purposely structured this whole process to be the same so that independent agents if they wanted to participate, it's the same thing that they do day to day. It's just they're replacing it with an attorney opinion letter that a lawyer needs to issue. So a different product that they're putting out in the market, but the same behind the scenes.

Tegus Client
Do you think it will be governed by RESPA?

Former VP and Business Development Officer at Old Republic National Title Insurance
Yes, it has to be.

Tegus Client
Got it. I’ve heard that there is an element of a moat that's created by data, which was confusing. Are you familiar with that? And can you explain it just because I thought these are all public records? So why would one or firms have an advantage just because of publicly available data?

Former VP and Business Development Officer at Old Republic National Title Insurance
Yes. So the data is publicly available, but what the industry has created for itself, or things called title plants. It's a faster way to access something and so what a title plant is, it's essentially a carbon copy of XYZ County's land records. Now, this was done years ago when digitization of land records hasn't really occurred.

And so instead of traveling to the courthouse to make a request or mail in something to, again, XYZ County. It was easier to go to a centralized location that you could just mail in or call in or e-mail in your order and they would have the same records that the county had, but they were able to do it a lot faster.

The big government was not being efficient. Over time, as that digitization has begun to occur, those moats are starting to fall off or better said, not as deep. If I, as a startup wanted to go to XYZ County, if they have digital land records, I can just log in to their site, create my account, buy my product for one, two, three main street, and get the data that I need and get the images of the documents that I need.

So title plants are still around. They're very valuable for older records that may not have already been digitized. But again, the industry has kind of aligned itself around a model that has existed for decades. And so the agents typically turn to the title plant as the way to access the data.

Tegus Client
Got it. So maybe said another way, if everything was digitized because I know some counties are, some counties aren't, some states are, some states aren't. If everything was digitized, then title plants would not have any value. They have value now just because sometimes older records are not digitized, and some counties don't have any digitized records.

Former VP and Business Development Officer at Old Republic National Title Insurance

Yes. And maybe also another way, title plants and the companies that run them, I equate them to organizations today and start-ups that have essentially built common APIs, kind of the middleware layer to say, hey, I need to connect to hundreds of different products and platforms.

And these companies build and maintain the APIs, and they just charge a toll fee. Any time you want to access XYZ County or ABC County or LMNOP, title plants are faster. If you're already directly connected through your back-end production technology, the platform you use to build your title policies, or your opinion and others, they're already connected to the title plants.

If I wanted to go outside that and manually connect to XYZ, ABC, LMNOP, I could do that and bypass the title plant. But again, it's just simpler, more efficient because the back-end title platforms haven't built connections to all 3,000 counties or the 2,400 counties that have online records.

Tegus Client

Got it. But in terms of the speed of it, though, how long does it take on average for a big four to reply to one of their agents and say, okay, we've done the title search, we're ready to give a commitment.

Former VP and Business Development Officer at Old Republic National Title Insurance

It depends if it's a purchase or a refi. Refi, you typically can turn around in a couple of days. I think the fastest that I've seen is, even in the most remote counties, you're looking at seven to nine days.

Tegus Client

Is it really such an advantage if you're taking nine days anyway?

Former VP and Business Development Officer at Old Republic National Title Insurance

No. And I think that's probably why title plants are really still around. There hasn't been an urgency around speed. So I think this would entail taking a small step back to give you a different perspective. In a mortgage transaction, it typically takes 30 to 45 days to close for a myriad of reasons. And I'm just going to list off a handful of them. The title takes, call it, two weeks produce. You need to get an appraiser out to the property who needs to evaluate the property to make sure that the home is worth more than the loan. So the property is effective as collateral. Also, people aren't ready to move in a week.

They put an offer on a house, they still probably are waiting to put their house on the market, or they put their house on the market and it takes time to get a mover, pack everything and get your stuff over to the new house. So people have been conditioned to that waiting a month to close a real estate transaction is normal, is acceptable. Can it be streamlined? Absolutely. You should be able to get this down to a week or two tops.

Now in a fully digital world and if the entire process was digitized, you could get it down to same-day transactions. All of the property records were digitized. If all of the appraisal process was automated where you can just go offer data to say, 123 Main Street previously sold at $400,000 and all of the comps in the area, we were able to see them and evaluate the similarity between 123 Main Street and all of the other comps in the area.

Yes, you can streamline that down to a day. But the industry is happy in how it conducts itself and there hasn't been the impetus to drive to that level of digitization. It's very unlike many other big-dollar transactions. I can go buy a car within an hour because people know my credit, they can evaluate my credit score and determine, I'm able to afford a $30,000 car if I'm financing it. But the way the real estate industry is set up through itself and through the regulations that are imposed on it like RESPA, like TRID, and others.

There's a whole bunch of hoops that everybody's got to jump through in order to properly underwrite the person and their ability to repay a loan and the property to make sure that it is worth what we're loaning out to X or Y. So a long-winded answer, but there are a lot of reasons why those efficiencies, the speed efficiencies have not ever really been realized in the marketplace. Will they get there one day? Sure.

Tegus Client
I'm not really sure it has so much value, though, just in the sense that per your point, if it's at least in an owner's policy or in a sale transaction because unless it's a new construction, you have a person who's moving out and they need to find another place. And if that's going to create 60 days of friction, what's the difference if it takes eight days or one?

Former VP and Business Development Officer at Old Republic National Title Insurance
Exactly.

Tegus Client
Is the amount of excess cost that's there really just to support itself and not really adding value to the end consumer? So what's your sense of what margins are for different aspects of, let's just say, agency versus underwriting? So I've heard, usually 10% or 15% of the title insurance premium that a consumer is looking at will go to the underwriter and the rest generally will go to the agents. And so maybe let's just frame it like and say $100, so $85 is going to the agent, $15 to the underwriter. How much money do you think you're actually making at the end of the day for the underwriter and the agent, like what's their cost structure like?

Former VP and Business Development Officer at Old Republic National Title Insurance
Yes. I mean the big four profitability is public record. So Old Republic is typically operating at anywhere between the way they account for it. They were pulling in $2 billion in revenue annually and profiting about $200 million. So about a 10% margin. But the way they would account for it all is they counted all of the revenue from the transaction, not just what was remitted to them.

So the 85% that the agent kept was the expense. Now if you were to just focus on the 15% revenue, incoming cash that actually moves hands. But generally, the industry is about the underwriter level like a 30-plus percent margin. Agents, the good ones are operating at that clip, if not higher. For instance, a national title agency was acquired, where they were running at about $20 million topline, I think they netted about six a year.

They're at about a 40% margin. Now keep in mind that it's not just the title insurance premium that they are collecting at the closing table. There's a myriad of other fees in nickel and dimes that they include to either offset direct costs, that's a pass-through, like, hey, you've got to record this at the XYZ County. So here are your doc stamp fees or whatever.

But then they charge $25 for FedEx and $295 to handle the settlement, which pays for the person's time who's sitting there making sure that everything is notarized properly, signed properly by the buyer and the seller. And so while the title insurance premium may represent the biggest chunk of the revenue generated per transaction, there are also a lot of things that the agent keeps for themselves, and they don't remit a dime of that back to the underwriter. And that's just how the business model is set up.

Tegus Client
Got it. So with just Old Republic as that example. So of the $2 billion, 85% would be fees to the agencies. So it's $1.7 billion, and they'd still make $200 million on the $300 million that was left over. So they're really making like a 67% margin.

Former VP and Business Development Officer at Old Republic National Title Insurance
There were some years where that was $130 million. Some years, it was $100 million, some years, it was $200 million, like over the last several years, obviously, everybody was just trying to keep their head above water by keeping up with volume in '20 and '21. If you look at margins in the last three quarters, it's not even close to what it used to be.

Tegus Client
Got it. Refinancing has totally gone away.

Former VP and Business Development Officer at Old Republic National Title Insurance

Right.

Tegus Client

Okay. And let's talk for a minute about RESPA. So I know that there have been workarounds where you can give a client a piece of equity in, I guess, a joint venture. And that doesn't count as long it's not directly tied to paying for an individual transaction. Like what other workarounds have you seen with RESPA specifically between the agency and the realtor?

Former VP and Business Development Officer at Old Republic National Title Insurance

Yes. RESPA precludes essentially paying somebody for a referral. So the consumer has a choice, by law to which title company or any service provider around a real estate transaction, they get to choose. The reality on the ground is most consumers will buy four to six houses in their life tops.

So they're going through this very infrequently. And they don't have an awareness of who to talk to, which title company should I use? Which appraiser should I use, the home inspector should I use? So they typically rely and historically have relied on the realtor to guide them, hey, this realtor does this day in, day out. They know who to use. They know the right folks. And so the realtor will say, hey, I've used X's title company before and use them often.

They close on time. There are never any issues, highly recommend them. And the consumer says, okay. And at the closing table, there is a disclosure that needs to be made in writing that the consumer needs to sign that says that XYZ realtor is an affiliate of that title company. And that's because there's some sort of joint venture where you as a title company have given me the realtor 5% of the company, 10% of the company because I'm always trying to refer business in.

And this happens all over the place. It is legal and very common. So many of the smaller realtor shops, smaller brokerages will have a relationship in some form or fashion with a local title agency. Now the bigger title shop or bigger realtor shops like Keller Williams, Long & Foster Smith & Co, RE/MAX, eXp, they've got a national title agency relationship because it's one they started. And so those agents and the bigger shops refer it to the national entity.

Tegus Client

Right. This is that rule where you have to have 30% from nonaffiliated sources?

Former VP and Business Development Officer at Old Republic National Title Insurance

Correct. And so they will do everything they can to drum up business to meet that benchmark.

Tegus Client

Would it be legal under RESPA, in your opinion, if a title insurance agency that was trying to break in, if they did marketing on their own dime to consumers that are looking to buy a home that haven't yet found a realtor and give the realtor that leads of the prospective homebuyer without directly tying it to using their title agency? But with an understanding informally that that's going to be the case and then cutting like not giving leads to realtors that don't use you in return for the title.

Former VP and Business Development Officer at Old Republic National Title Insurance

I completely understand it. I've actually tried a same approach, different monetization structure. That would be illegal under RESPA, the example you provided because you're giving something of value to certain realtors and not everybody. And there's this tacit understanding, even though it's a handshake agreement that you will be compensated for providing that thing a value to XYZ realtor, not ABC realtor.

Tegus Client

Why is that different though than having a JV where you say ABC Realtor, I'm going to give you ownership in this JV, and I'm not giving it to XYZ?

Former VP and Business Development Officer at Old Republic National Title Insurance
Because when you provide a thing of value to the joint venture, you're not being compensated for it as part of that one transaction. You are being compensated through your ownership of the entire company. And that could mean profits or losses. And that's where it becomes acceptable under RESPA. You have the realtor, even though you have an ownership interest in the company, you have both upside and potential downside.

Now I'll give you an alternate structure that has been approved and found acceptable under RESPA. For example, homeowners auto insurance, whatnot. This was an area that I actively explored. So they would want leads and they would pay us, the title agency or the realtor, the mortgage company. They would pay leads in one of two different ways.

Either I'm going to pay you a blanket dollar amount per lead, whether the auto insurance company, homeowners insurance, I'm just going to pick one. Let's say it's Progressive or Allstate. They would pay you that, per lead, whether they closed it or not. That's okay under RESPA because it's not tied to a specific real estate transaction. Now they can pay you for an unqualified lead, meaning, hey, this is just somebody that I came across that visited my website.

Here you go, here's their information or a qualified lead, we get paid X plus Y because they've expressed an interest in your product. And so that is one structure that is acceptable under RESPA. Another way to do it is you do the JV construct where all leads that come in are given to Progressive because they are part owners of the company. And they then try to tackle whatever they want, but they don't pay you per transaction.

They just pay for the equity or marketing dollars and other expenses of the company, they're on the hook for it. That's option structure number two. Structure number three is a little different. RESPA only focuses on an individual transaction. And so if you wanted to give somebody like Progressive a lead, it's free in year one. But for every year thereafter that, that person renews with you Mr. Progressive, or Ms. Allstate, I want 20% of their premium.

I'm just picking a random number. That's okay under RESPA because the renewal of their policy is not tied to the purchase of the property in year one because the consumer can then go and choose to go from Progressive to Allstate or State Farm in year two. So there's nothing tying it back to that initial transaction, which is okay under RESPA.

So to go back to your model, if you wanted to pay your own dollars to go source leads, totally fine, a realtor can buy those leads from you at some price, whether or not they convert that lead, that would be acceptable under RESPA. To build a partnership or the promise of business can't work unless they are paying fair market value for that thing.

Tegus Client
Let's say I went out and I spent $5,000 advertising or any amount of money. I go out and I spend a bunch of money advertising on Zillow saying, hey, do you need a real estate agent? We can help you select the best real estate agent for your area. And a bunch of people submits lead forms to me saying, I'm interested. We prescreen and qualify them and say, okay, here are the 200 people in this county who are really actively looking for a house right now. And we say, okay, so we screen the leads. We're going to give 20 leads each to ten different real estate agents for free. We're not even going to charge them just to build relationships.

And these real estate agents go, and they know that we do title agency work. And we just let them know, hey, look, we're giving these, these for free, no strings attached. You do not have to use us. But we do this. And as you could see an agency that cares about customer service, we will get your deals close because we know that's what matters to you. And so of those 20 agents that have ten leads each, five of them come and use my new agency for title work and the other 15 don't. And I say, okay, thank you.

Nothing was tied directly to any one deal. I appreciate you having faith in us and wanted to create a relationship. And then next year, when I go and spend more money on advertising to get consumers who are interested in buying a home and qualify them for real estate leads, I cut out and don't offer these free leads to these 15 agents that chose not to use me for the title from the prior year. So it's not tied to any one transaction.

Former VP and Business Development Officer at Old Republic National Title Insurance
I get it. But again, under RESPA, the way the courts would look at it if it ever got to there or the regulator, CFPB, whomever. They would look at it as you're only giving it to certain agents and not everybody. You're not making this thing of value available to all.

Tegus Client
Right, but isn't it the same as the JV?

Former VP and Business Development Officer at Old Republic National Title Insurance
The JV is different because the way you get paid and the way they get paid is not through any one transaction. It's through their equity ownership, which is for everything. And again, they're on the hook for the downside as well as the upside, that's why the JV structure has been found to be acceptable.

So I'm trying to give you a very broad-brush stroke answer here. Obviously, this is the practice of law, so I want to be very direct with you. But at the same time, if you really want to get a true detailed response, under legal ethics rules, I will need to say, hey, go hire a lawyer and ask that way. But that's just where things have settled in terms of what's an acceptable RESPA structure and what's not.

Tegus Client
And I get this is how the world works, sometimes it just takes a while for regulations to really catch up with the realities on the ground.

Former VP and Business Development Officer at Old Republic National Title Insurance
Sure. It is a cat and mouse. And the industry here's all the rules and here's the maze you have to go through, and they find their way around it. And the end result doesn't really benefit a consumer that much. The only difference is that the consumer if it's an affiliated transaction.

They just find a document that says yes, this relationship between A and B has been disclosed to me, and I'm okay with it, fine. Now the dumb part about it all is that this is one of 150 pages that the consumer has had to sign. So do you think that a 33rd page they are told to sign, they're not reading it.

Tegus Client
I totally get it. It's like a disclosure statement when you go into a website and it's like we might use your information and you're like yes, I just want to go to the website.

Former VP and Business Development Officer at Old Republic National Title Insurance
Exactly. So I think where you're ending up, at least what it sounds like, is that you've got a couple of ideas on how to enter into the market. And the question is, how do you want to go about it?

Tegus Client
Yes. The agency area seems like it's scalable, and you can start on a small scale and be cash-flowing right away. But the question is how do you win business?

Former VP and Business Development Officer at Old Republic National Title Insurance
I'll start by giving you my Doma experience that I mentioned earlier. Back when they were States Title, they had been trying to get approved by certain states as an underwriter. And the industry was very heavily pushed back against approving them as an underwriter and made it known to the state departments of insurance, in Arizona and California. Wherever they were going because the way they approached claims was like a normal insurance company.

It was cheaper and easier and more efficient to do it that way than it was to try and fight nickel and dime and have large claims departments with high overhead. The other unique thing that they had was they built a black box, an automated underwriting engine that ingested millions of title records from around the country and said, all right, if the title search comes up with X and Y and Z, I'm going to approve it because I've seen

X and Y and Z before.

So they approach things really uniquely, I thought because instead of going the underwriter route, they wanted to just become a national title agency. And they would exclusively write on our paper. And basically, just work for us. And I realized that at some point, they would make enough money and have enough time to get approved as an underwriter. And then we've monetized it for however many years, but then they're going to come back and really challenge us.

But then Doma went and partnered with Lennar and used VC money to buy Lennar's underwriters that they had already gotten approved in 48 states and renamed it Doma and they're around today, but they've never been profitable and they've never or maybe they've had a couple of quarters of profitability minimally. And they've not gained market share.

So if I were answering a question around, should I go down the underwriter route, I would say no. It's just not worth economically to try and build up market share. You're absolutely dead on correct around the agency space. You can create a national title agency really quickly and either start from scratch and build your own teams to access whatever you need, the production, all that or there are franchises available.

There's one called, I think, TitleEase, where they will build the back-end process, centrally process all of your orders behind the scenes that you don't even have to invest in any of the back-end office stuff. You just build your marketing machine and work with realtors, work with consumers and build up your book of business. And then in two, three years, they've made enough money and they're out. So there are plenty of ways to get into this business.

You could even go the route of the opinion letter, which just in disclosure, that's what I'm doing. Either build or acquire a title agency that I can use to just fulfill the orders that aren't able to get from lenders and consumers for an opinion layer. And my law firm is the one that issues the policy. So there are plenty of ways that you can get in.

If you were able to tap a sufficient level of capital, buying a title agency right now, you're paying probably three times top line. And most title agencies are pretty profitable like I described before. So not hard to find somebody that you can land and use at a national level for $20 million and raise the capital to do it that way.

And then you're hitting the ground running and then you can apply all of your thoughts and ideas around market share capture, whether it's lead gen, whether it's building a relationship with realtors and different organizations, there're plenty of ways to go about doing it, truly plenty of ways.

But from my perspective, I think the time is really ripe to get into the space now and drive revenue creation because whenever the market really starts to turn around and I can talk to you at length about when I think that will be because I've been in the mortgage space, I've been in the title.

So I feel pretty confident in saying that it's probably going to be another six to 12 months of this kind of plotting forward. And then once house prices fall or rates fall, that's when volume will start to pick up. And it's the organizations that spend the time and money now to position themselves for the upswing. They're the ones that are going to really succeed.

Tegus Client

Yes. So the main thing that realtors care about is making sure the deal closes and getting their commission. And they will talk their client into using their title agency and their person and their escrow person and say, like, I need to get this deal done. I have confidence that my team will close it. You don't want to use somebody else's team because who knows if they'll close it. And so I guess the question to me is, I understand why with an escrow agent, that matters. Why does it matter to a realtor? Why does their title person who's just an agent of a big four? Why does their title person versus some random title person have any incremental value in terms of being able to close their deal?

Former VP and Business Development Officer at Old Republic National Title Insurance

From who can close it perspective, title agents are dime a dozen, literally, anybody can close your transaction. Whether it's East Coast, where it's a title agent or an attorney state where an attorney needs to do it, or an outlet or their escrow offices. Anybody can do it. The reason realtors refer business to one over another is because of the long-standing relationship that they have or the affiliate relationship that they have. Simply put, that is the reason why realtors pick one over the other.

But the consumer says, you know what, I know you are recommending these guys, but I'm going to go with Y title company instead of X? The realtor by law has to say, okay, that's fine. We'll make it done. We'll get it done. Now, are there things that the realtor can do to help facilitate closing the transaction? Sure.

And that delves into the borrower's communication with the lender. And so you'll frequently see the realtor conversing with the loan officer as the go-between to say, hey, we need the borrowers next month, their next pay stub just to confirm that they're still working. And so the loan officer will reach out or the realtor will reach out.

So the realtors build up relationships with the LOs and the LOs like that because the realtors can refer business. When you go and buy a house, you may not be tied to a lender yet. The realtor may say, hey, go with XYZ? And you might say, okay, I'll go talk to him or her. And so there's a bit of a referral process there that goes on.

Again, I might, again, as a way around RESPA, as the loan officer or as a title company, I may advertise on your website, your realtor website or I may promote and sponsor lunch and learn that you're hosting in the community. That is a totally fine way of using marketing dollars to build relationships. That's okay. But you got to just make sure you're doing it in a RESPA-compliant way. That's all.

Tegus Client
Within the agency side of the business, I know you said there's a big opportunity, do you feel like most agencies in larger markets, are there enough people out there who are really being effective at doing that in the best way possible to win that business from realtors? Or do you think that there's still an element of like kind of old school, fat and lazy, and not really taking advantage of the way they could?

Former VP and Business Development Officer at Old Republic National Title Insurance
It's usually the latter. The title agency industry is older, female-driven. Most of the workers are female-driven, but the owners are actually usually male, just giving you broad demographics. I'm not trying to read into one way or the other. But from an agent perspective, they've built their relationships, and they're comfortable with it. And they go with the ebbs and flows of the market. When the business is great, they just come along. Right now, times are lean.

They may cut back on some staff, but they usually don't try and expand their network beyond the sources of revenue that come in the door. If you wanted to come in with a really aggressive and digital-centric marketing approach to try and grab as many eyeballs as possible and market share as possible, you'd roll some heads around, for sure.

Tegus Client
Okay. Thanks again for your time, really appreciate it. Bye.
