

2009 - 2010 Ohio Real Estate

Settlement Preference Survey - Executive Summary

I. Background and Objectives

The Ohio Association of Independent Title Agents (OAITA) created a Settlement Preference Survey in 2009 with the assistance of title insurance agents, real estate attorneys, regional title insurance underwriters and other interested stakeholders in order to evaluate the preferences of Ohio real estate consumers at the closing table. It is the shared experience of those who helped to formulate the survey that consumers lack important information concerning the objectives and agendas of the settlement service providers who often times do not disclose that they receive financial incentives for their referral of business. It was hypothesized that, assuming a consumer was informed of the existence of an incentivized referral relationship and the potential conflict of interest that is inherent in such a structure, they would be less comfortable with the services rendered by such an arrangement and be more apt to shop elsewhere for the same services.

In 2008, Harris Interactive was commissioned by the National Association of Realtors (NAR) to conduct similar research among recent and future home buyers to evaluate experiences, familiarity, usage and preferences regarding one-stop shopping. This data is often used by proponents of controlled business arrangements (CBAs) to substantiate a myth that real estate consumers both understand the value of CBAs and benefit from their use, even though the Harris Study found that more than 70% of respondents were unaware of what a CBA or one-stop shop is¹ and less than 25% prefer to use a CBA or one-stop shop for their real estate settlement.²

The Settlement Preference Survey (SPS) was designed to be everything the Harris Interactive study was not -- quick, efficient and unbiased. The SPS consists of eight simple questions on a one page survey. The survey does not identify what organization or entity is requesting the survey, thereby allowing consumers to approach the survey without answering the questions to assist or harm the producer. The survey is given, in written form, at the time of closing while the consumer is most apt to respond in an unbiased manner concerning their closing experience. The survey questions were specifically designed to not suggest possible biases or outcomes.

The objectives of the SPS were the following:

- Determine the source of referral for the respondent.
- Clarify the conflict of interest that exists in the real estate settlement process and allow consumers to test their own comfort level with that information.
- Verify basic knowledge about what a title insurance agent does to obtain a commission.
- Discover the preferences that real estate consumers have in light of the fact that some real estate settlement service providers hold incentivized financial interests in the referral of business.

¹<http://www.realtor.org/wps/wcm/connect/26edd6804a7ad6f3a68abf72b4e3ecdd/NAR+Survey+2008.pdf?MOD=AJPERES&CACHEID=26edd6804a7ad6f3a68abf72b4e3ecdd>

² http://www.realtor.org/diversified_re_firms/20080501_one_stop_shopping at p. 8.

II. Methodology

- Audience: United States residents, 18 years or older who purchased or refinanced a residential property in a period between September 1, 2009 to December 31, 2009 and September 1, 2010 and December 31, 2010.
- Method: One page, eight question written form survey given at the time of settlement.
- Field dates: September 1, 2009 to December 31, 2009 and September 1, 2010 to December 31, 2010.
- Sample size: n = 471
- Survey Duration: < 2 minutes
- Margin of Error: $\pm 3.4\%$

III. Executive Summary

- **More than three out of four real estate consumers depend upon a referral to select their title insurance agent and/or escrow agent.**
 - Only 23% of respondents independently selected their title insurance agent/escrow agent for their real estate transaction.
 - 77% of respondents did not independently select their title insurance agent/escrow agent for their real estate transaction.
- **Those real estate consumers who independently select their own title insurance agent/escrow agent primarily depend upon “word-of-mouth” or reputation to find their selection, not media advertising methods.**
 - 47% of those who independently selected their own title insurance agent/escrow agent used “word-of-mouth” or reputation to learn about their selection.
 - 27% were return customers.
 - Only 3% of those responding learned of their title insurance agent/escrow agent through the use of Internet or print advertising.
- **Real estate consumers are most impacted to choose a title insurance agent by the referrals of real estate agents/brokers and mortgage companies and brokers.**
 - 40% of respondents cited real estate agents and brokers as the most influential in selecting a title insurance agent.

- 34% of respondents cited mortgage companies and brokers as influencing their selection of a title insurance agent.
- 5% of respondents cited banks as influencing their selection of a title insurance agent.
- **Real estate consumers do not become more comfortable with the title insurance services offered by a title insurance agent when they know that the party who referred them to the title insurance agency owns a financial interest in the agency.**
 - Only 9% of respondents said they were more comfortable with the title insurance offered by a title insurance agency owned by the referral source that referred them there.
 - 38% of respondents said they were less comfortable with the title insurance offered by a title insurance agency owned by the referral source that referred them there.
- **Nearly three out of every four real estate consumers think it is important or very important for a title insurance agent to be a neutral third party in determining what matters may affect their title.**
 - 72% of respondents want a neutral title insurance agency handling their insurance.
 - Only 6% of respondents believe that neutrality is not important.
- **Real estate consumers do not prefer title insurance agents that share ownership with a real estate firms, mortgage companies, banks, or others.**
 - Only 6% of respondents prefer a title insurance agent that shares ownership with a referral source.
 - 50% of respondents prefer a title insurance agent that does not share ownership with a referral source.
 - 44% of respondents expressed no preference.
- **Real estate consumers believe it is a conflict of interest for a referral source to receive a share of the profits from selling title insurance or providing escrow services.**
 - 57% of respondents believe that it is a conflict of interest to receive a share of profits.
- **Real estate consumers believe it is a conflict of interest for a referral source such as a bank, real estate firm or mortgage company to provide compensation to their employees for referring their settlement work when they get a financial benefit from the referral.**
 - 58% of respondents believe it is a conflict of interest for a referral source to give compensation to their employees for referring settlement work if they receive a financial benefit from the referral.

IV. Conclusions:

- **Ohio title insurance agents play passive roles in the determination of who uses their services.**
 - Because of the lack of communication between title insurance agent and consumer, the whims of the real estate agent, mortgage broker and bank play a much larger role in the determination of what settlement business a title insurance agent receives.
- **When a real estate consumer is advised that the person or entity referring their business to an Ohio title insurance agency receives a financial incentive for that referral, they are no longer comfortable with the title insurance surrounding that transaction.**
 - Borrowers are mostly unaware of the relationship between the different settlement service providers and many of these assumptions are aided, whether rightly or wrongly, by the same referral sources that are trusted by the consumers to use their professional judgment, not their wallets, to determine the best title insurance agent.
 - Title insurance agents lack meaningful access to Ohio real estate consumers concerning the merits and differences of their services. These inequities are enhanced by the referral sources and their advocates who promote CBAs and market consolidation as a further means to separate consumers from title insurance agents.
- **Contrary to the findings of the NAR-Harris Study in 2008, Ohio real estate consumers overwhelmingly disapprove of title insurance agencies that share ownership of their agency with real estate firms, banks and mortgage companies.**
- **A majority of Ohio real estate consumers believe that conflicts of interest not only exist as a result of illegal controlled business arrangements and joint ventures between title insurance agencies and their referral sources, but also as a result of “legal” controlled business arrangements and joint ventures.**
 - Laws which arguably support the existence of CBAs in Ohio have done little to change the attitude of Ohio real estate consumers who still believe that “legal” CBAs represent conflicts of interest.
- **The survey data supports the hypothesis that independent title insurance agents can utilize their independence from referral sources to their economic advantage. Ohio real estate consumers have clearly expressed a preference for the independence and autonomy of settlement service providers at the closing. Those title insurance agents and agencies who can effectively communicate that advantage directly to the consumer stand the best chance for competing against CBAs and joint ventures.**
- **Ohio real estate consumers are largely unaware of the differences between each individual settlement service provider. The reasons why independent title insurance agents give consumers the best chance to avoid real estate related litigation need to be explained further.**