

Comparing Home Closing Costs *Title Charges Vary Widely in Five Metro Housing Markets*

Robert Feinberg, Daniel Kuehn, Signe-Mary McKernan,
Doug Wissoker, and Sisi Zhang

Mortgage interest rates are not the only costs homebuyers should consider when taking out a loan. Closing costs can significantly raise the total cost of buying a home. Title charges, including title insurance premiums, are a big part of these closing costs and can vary considerably across and within housing markets. This variation suggests that homebuyers may benefit from shopping around for settlement services.

The Urban Institute examined variation in title charges across and within counties covering five metropolitan areas: Chicago (Cook County), Philadelphia, Phoenix (Maricopa County), Sacramento, and Fort Lauderdale (Broward County). The study analyzed several measures of title charges using the Metropolitan HUD-1 Settlement Cost Database, which includes settlement statements from 2001 for more than 3,000 FHA-insured, 30-year fixed-rate mortgages.

Some have argued that title charges gravitate substantially above cost through industry practice, state regulation, and the infrequency with which consumers shop around (Birnbau 2005; Woodward and Hall 2010). The revised good faith estimate and HUD-1 settlement statement aim to improve competition by encouraging homebuyers to shop for settlement services and helping homebuyers compare loans and settlement services. The Urban Institute study creates a baseline for evaluating the effectiveness of those and other policy changes.

Title charges across the five metro areas vary widely, from a median of \$1,867 in Broward County to \$914 in Philadelphia. Title charges vary greatly *within* the five counties as well, particularly in Philadelphia and Cook counties. In Philadelphia, title insurance premium rates are closely tied to house prices, so much of the varia-

tion in title charges is largely due to variation in home prices, not in settlement agents. Regression analysis suggests that Sacramento homebuyers could save as much as \$326 in title charges by shopping around for lower-cost settlement agents, while in Broward County, a homebuyer could save as much as \$528.

Why do title charges vary so widely? Characteristics of the home or neighborhood, such as sale price and age of a house, are generally associated with title charges in Philadelphia and Maricopa County but are less consistently associated with charges in the other three markets. Factors unrelated to cost, such as demographic or educational characteristics of the household or neighborhood, played a modest role in explaining title charges in Cook County but were insignificantly related to charges in the other counties.

However, a large amount of variation in title charges cannot be explained by socioeconomic differences, reaffirming prior research that concludes title charges are highly variable and largely unpredictable. Even after controlling for characteristics of homebuyers, houses, neighborhoods, and settlement agencies, half the variation in title charges remains unexplained.

Some of that unexplained variation may result from relationships between real estate agents, mortgage companies, and settlement agents—making it difficult for consumers to compare the rates of settlement services. Also, some settlement agents specialize in specific neighborhoods or developments, limiting choices for homebuyers who want to buy in a particular location.

Since regulatory policies play an important role in determining title charges, regulators may consider it in the public interest to reduce this variability. To help consumers make more informed choices, the U.S.

Department of Housing and Urban Development should consider requiring homebuyers, sellers, and their agents to submit HUD-1 forms electronically, making a database of forms available online to aid in comparing closing costs.

Note

This factsheet draws from “What Explains Variation in Title Charges? A Study of Five Large Markets” by Robert Feinberg, Daniel Kuehn,

Signe-Mary McKernan, Doug Wissoker, and Sisi Zhang (The Urban Institute, June 2012). Serena Lei contributed to this factsheet.

References

- Birnbaum, Birny. 2005. *An Analysis of Competition in the California Title Insurance and Escrow Industry*. Report to the California Insurance Commissioner. Los Angeles: California Department of Insurance.
- Woodward, Susan E., and Robert Hall. 2010. “Consumer Confusion in the Mortgage Market: Evidence of Less Than a Perfectly Transparent and Competitive Market.” *American Economic Review: Papers and Proceedings* 100:511–15.

To download this document,
visit our web site,
<http://www.urban.org>.

For media inquiries, please
contact paffairs@urban.org.

Given the chance, many low-income families can acquire assets and become more financially secure. Conservatives and liberals increasingly agree that government’s role in this transition requires going beyond traditional antipoverty programs to encourage savings, homeownership, private pensions, and microenterprise. The Urban Institute’s Opportunity and Ownership Project policy fact series presents some of our findings, analyses, and recommendations. The authors are grateful to the U.S. Department of Housing and Urban Development (Order Number C-CHI-01027CHI-T0001) for funding the research and to the Annie E. Casey Foundation and the Ford Foundation for funding the Opportunity and Ownership Project.

Copyright © 2012. The Urban Institute. The views expressed are those of the authors and do not necessarily reflect those of the Urban Institute, its board, its sponsors, its funders, or other authors in the series.

Permission is granted for reproduction of this document, with attribution to the Urban Institute.