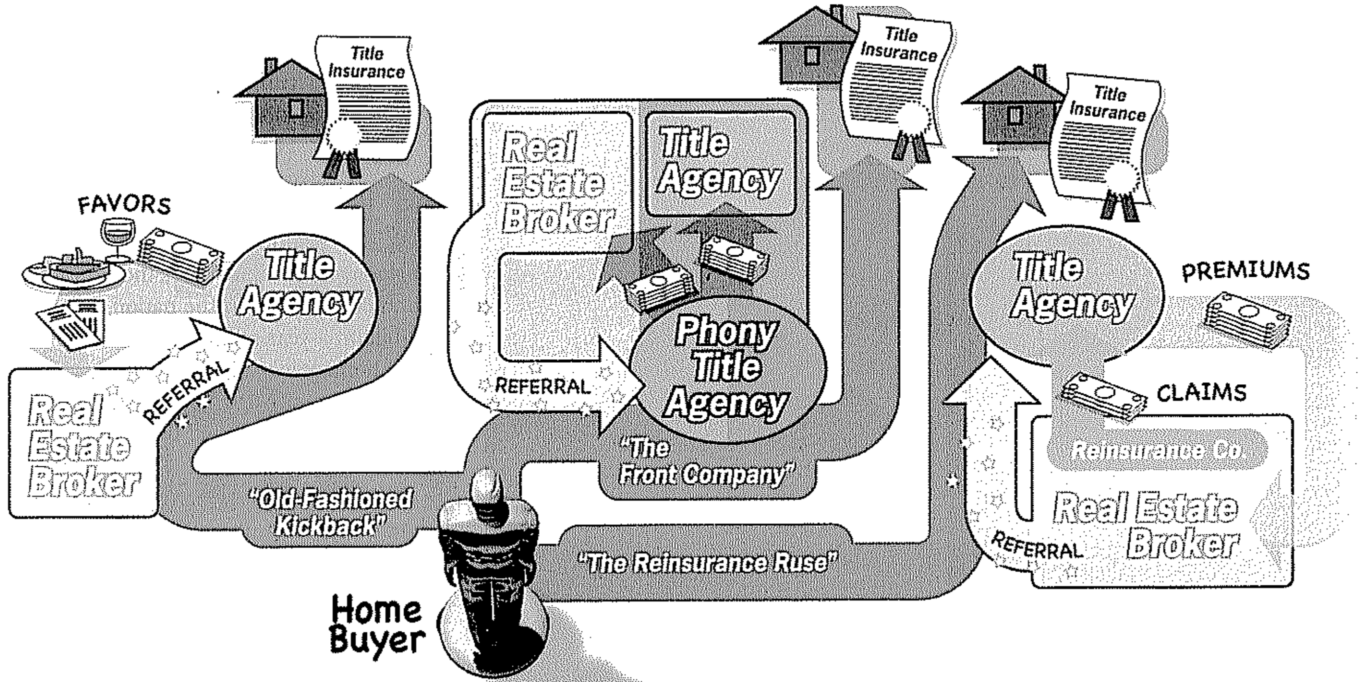

CORRUPTION 101

AS TITLE AGENTS' PROFITS HAVE SOARED, SO HAS THE VALUE OF CONVINCING A real state broker (or mortgage broker or builder) to steer business their way. Paying for such referrals is illegal, so title agencies design other ways to camouflage kickbacks. In an old-fashioned kickback they simply slip the referrer a free meal or other favor. To pass along bigger sums title agents create phony front companies that are co-owned with the referrer. The front company does no work, it just collects profits and splits them with the referrer. In the reinsurance ruse, the referrer owns a reinsurance company, which reinsures title policies at grossly inflated rates.

If cash referral payments were legalized, referrers, who operate in competitive markets, would be pressured to lower prices for consumers. So it's no surprise that the title industry lobby supports the antikickback laws, even as its members routinely violate them.

much to antiquated state laws that thwart new competition, allow prices to soar despite declining costs and force almost every home buyer to pay for insurance that most of them will never need. In all but a handful of states, laws bar insurance giants in other fields, such as AIG or State Farm, from offering title insurance and undercutting incumbents' prices. It also is illegal for anyone to offer guarantees that provide the same protection as title insurance.

Home buyers can't get mortgages without buying title insurance; nor can banks themselves legally offer it as part of a loan. (Otherwise, the banks could demand high-volume discounts.) A handful of states set prices title firms may charge; others regulate prices and rubber-stamp the prices title firms request.

The industry has boomed on such you-gotta-have-it conditions—especially in the refinancing craze of recent years. In 2000 some 2 million refinancings went through; that grew to 7 million in 2005. A homeowner refinancing a mortgage pays for new title insurance, despite the utter absence of any new risk in the deed.

The title industry's perennial protectionism has had a predictable side effect: corruption. Shielded by law from having to compete on price, insurers resort to bribes and gifts to real estate agents and mortgage brokers for steering business their way, deceptive front companies, phony "reinsurance" deals and other creative chicanery *(see above)*.

Regulators in Washington State just revealed that First American spent $120,000 a month courting real estate agents with season tickets to University of Washington football games, tickets for Seattle Supersonics basketball games, shopping sprees and other goodies. The state report says the firm was "the worst offender" and committed more than a hundred violations a month in the 18-month period studied. It adds: "First American offers a prime example of how illegal inducements can help a company attain superior market share."

Kennedy says that despite pressure to keep up with crooked competitors he never approves such schemes: "All you can do is try to hire honest people."

Now some forces are working to rein in this rapacious industry. Officials in dozens of counties are working to standardize homeownership for digital access by the public. The U.S. Department of Housing & Urban Development is mulling ways to force more competition on the industry, though previous efforts have failed utterly. Some politicians who have been stalwart allies of the business now are reversing course. In California the chief regulator has just called for a 23% price cut. This summer New York mandated a 15% cut in rates.

Yet regulators in most states have blithely acquiesced as consumers bills have risen. This, despite insurers' low risk of payouts and the tech-fueled decline in costs. Sifting through property records to ensure that a title is clear of old claims

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