



The University of New Mexico

The Robert O. Anderson School
and Graduate School of Management
MSC05 3090
1 University of New Mexico
Albuquerque, NM 87131-0001
Telephone: (505) 277-6471
FAX: (505) 277-7108

January 15, 2008

The Honorable Bill Richardson
Governor
State Capitol Building, Suite 400
Santa Fe, New Mexico 87503

Dear Governor Richardson:

I am writing to add my voice to the others, including the Public Regulation Commission, the Attorney General and Think New Mexico, who have all written to you respectfully requesting that you issue a Special Message to allow a full and fair hearing of title insurance reform.

Specifically, I endorse the legislation drafted by Think New Mexico in conjunction with me, the Public Regulation Commission, Superintendent of Insurance Mo Chavez and PRC staff. This legislation will restore some free market price competition to an industry that currently has no price competition. The reform bill replaces the current promulgated rate system with a "cap and compete" system, in which the Superintendent of Insurance promulgates caps on title insurance premiums and allows competition beneath the caps. In addition, the legislation provides a number of other basic consumer protections that homebuyers in other states enjoy. Significantly, it also removes the immunity from liability for negligent searches.

I recently led a research team that was commissioned by the PRC to study title insurance rates in New Mexico relative to five neighboring states, and I am conducting further academic research related to title insurance. As we reported in our study, New Mexico's title insurance rates tend to be lower than certain states in the region (e.g., Texas, Utah) but higher than others (e.g., Colorado), though inter-state differences vary between products and transaction values. We concluded that "the cost of title insurance could be reduced through innovations in how title insurance policies are written, marketed and regulated." I believe the reform legislation does just that. Based on the data we collected for our study, I believe the proposed legislation will make title insurance - and, by extension, home ownership - more affordable for certain transactions, whereas for other transactions price competition below the regulated caps is unlikely to occur.

There is a lot in this bill for local title agents to support. For example, it moves the annual rate hearing to once every other year. That will save both business and government money. One



provision of the bill allocates more of the premium dollar to the agents, who currently retain less than 85 percent. (Agents in other states retain as much as 92%.) Another provision empowers the Superintendent to protect the title insurance market from unfair price competition by disapproving inadequate rates.

Across the nation, we are witnessing increased pressure for reform of the title insurance industry and the way title insurance rates are regulated, and New Mexico has the opportunity to be a leader in establishing a novel regulatory regime that protects consumers and enables competition while respecting the need for title insurance agents to make a living. New Mexico has been one of the few states with a promulgated rate system, which appears to lead to higher prices for certain transactions. Due to market imperfections associated with characteristics of real estate transactions, fully deregulated states do not necessarily end up with more affordable rates either. I believe that the hybrid regulatory system that is now being proposed could serve as a successful model for other states to emulate.

In summary, I support Think New Mexico's bill in its entirety. It builds on the conclusions of our report regarding the cost of title insurance for consumers and how to reform title insurance for the benefit of both consumers and the industry itself.

Please understand that I am expressing my own professional opinions on this matter based on the research I have conducted related to title insurance. My views do not necessarily reflect those of the University, and I do not speak on behalf of the University of New Mexico. To my knowledge, the University of New Mexico has not adopted a formal position on title insurance reform.

Sincerely,

A handwritten signature in black ink that reads "Dante DiGregorio". The signature is written in a cursive style with a large initial "D" and "D".

Dante DiGregorio, PhD
Assistant Professor
Albert and Mary Jane Black Professorship in Economic Development