Bankrate.com’s Closing Cost Comparison Inaccurate

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The Texas Land Title Association (TLTA) has determined that a recent closing cost comparison by Bankrate.com provides inaccurate figures for the cost of title insurance in the state of Texas. TLTA strongly supports transparency and welcomes data that will help consumers understand the costs associated with a real estate transaction. We have analyzed both the figures and the methodology used by Bankrate.com. We believe both are faulty and the resulting rankings are not reliable. The way the data is presented is also confusing and even misleading in terms of how the costs are categorized and labeled.

In terms of the methodology, Bankrate.com states that they estimated closing costs in each state by obtaining online Good Faith Estimates (GFE) for a $200,000 mortgage on a $250,000 single-family home where the borrower is making a 20 percent down payment.

Because title insurance rates in Texas are set by the state and do not vary, the cost for title insurance in Texas is easy to obtain and verify. However, the figure for Texas on the line labeled, "title search and title insurance" on the Bankrate.com website is significantly higher than the published Texas rate for a transaction of the same size. The basic premium rate for an Owner’s Policy in Texas for a transaction of this size is a one-time charge of $1648. If you also include the Loan Policy and it is issued simultaneously, the premium is $100, making the total for “title search and title insurance” in Bankrate.com’s hypothetical transaction $1746. Instead, the Bankrate.com website shows a price tag of $2,185. Bankrate.com’s published cost is $439 or, in other words, 25% higher than the actual rate. Consumers should be cautious that the Bankrate.com tables do not appear to be accurate for Texas and therefore may not be reliable for other states either.

It is also important to note that the way title insurance rates are set and what is included in those rates varies greatly across the country, and Texas rates cannot be compared on an apples-to-apples basis with those of other states where the rates are not set in the same way. The rankings would offer a more accurate comparison if Bankrate.com provided some context for the numbers it presents. Texas, for instance, is considered an “all-inclusive” rate state, meaning the title search as well as the title insurance coverage is included in a single rate. This is not true in many other states where these charges are made separately.

An understanding of the way title insurance rates are set in Texas also casts doubt about the accuracy of this ranking. Texas title insurance rates are adopted by the Commissioner of Insurance through a public hearing process and published rates are the same across the state, providing certainty for consumers. The basic premium rates in Texas have not changed since 2007, when the most recent of several rate decreases was put in place (the last rate increase was over twenty years ago). Therefore, the Bankrate.com listing for “title search and title insurance” in Texas, should have remained the same since the 2007 rate change. However, a review of the last three Bankrate.com listings shows a different number for Texas for each of those years.
Additionally, although Bankrate.com states that the source for their data is Good Faith Estimates, the line items listed in the Bankrate.com tables do not match up with those on a GFE. Federal regulations mandate what is to be included on a GFE and also require that the various entries match up with corresponding lines on a HUD-1 Closing Statement. If Bankrate.com is using GFEs as their source for data presented in this online table, it should be easy for consumers to compare a GFE to the Bankrate.com listing to determine if their closing costs are in line. In our analysis of the listings, we were unable to conduct this kind of line-by-line comparison, leading us to question its accuracy.

GFEs do not provide an accurate picture of the true costs homebuyers pay at the closing table because they are frequently higher than the final costs paid by the borrower as shown on the HUD-1 closing statement. Current regulations require that the final closing costs be no more than 10% higher than the lender’s estimate on the GFE, so it is not uncommon for the mortgage lender to estimate on the high side to make sure all possible charges are included. This may be particularly true with online lenders, the source used in this ranking, who are not local and therefore may not be as familiar with customary charges in a particular state or locality. A more accurate comparison would be derived from using figures from actual closing and settlement statements rather than estimates made by online lenders in advance.

Finally, the labeling used in the ranking is confusing, if not misleading. On the front page, there is a column labeled title and closing costs. However, when one clicks through to an individual state page to examine the data further, the items in this same column are now titled third party fees and several of the items in this category are items required by the lender in connection with the loan and are not actually related to title or closing. Making the labeling consistent and appropriately categorizing items would make this ranking much more valuable for consumers.

Again, TLTA is supportive of any information that accurately helps consumers compare costs and assists in their understanding of the real estate and mortgage lending process in general. In order to better serve consumers, we urge Bankrate.com to work with the title insurance industry to help provide more accurate information about title insurance and closing costs and we would welcome the opportunity to be involved in that process.

See also:
2012 Bankrate.com Rankings
American Land Title Association’s statement on the Bankrate.com Rankings

Founded in 1908 and serving more than 11,000 professionals, the Texas Land Title Association (TLTA) is a statewide trade association representing the land title industry in Texas. TLTA members provide certainty, efficiency and security to real estate transactions by conducting title searches, examinations, closings and issuing title insurance to protect real property owners and mortgage lenders against losses from defects in titles.