

The Future of the Title Production Process Is Here Today

**A White Paper
By**



Real Technology, Real Solutions & Real Benefits

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Executive Summary

The title industry is going through one of the toughest times in its history with the direct impact of the housing slump, the sub-prime mortgage collapse, and the regulatory/consumer group pressures to reduce premiums. As the industry's revenue base has eroded, companies have reacted by reducing resources and outsourcing title production to both domestic and international Business Process Outsourcers (BPOs); yet most of the major title companies have not been profitable for sometime. Technology is the catalyst to help drive this industry to new ways of becoming innovative and implementing new processes that improve timing, productivity and economics.

Now more than ever is the time for this industry to focus on changing the way it does business, especially how it manages and performs the Title Production Process. This is a largely manual process that needs to be changed to an efficient and effective automated process, one that streamlines this last frontier of labor intense efforts within the title industry today. Implementing change however, has not always been easy for this very traditional industry; but the time has come to focus and take action to realize the efficiencies and immediate cost savings available by automating the Title Production Process.

The Current Marketplace - Hurricane Title

The downturn in the real estate and housing development market has created a significant impact on the title insurance industry. Housing prices peaked in 2005, have been declining since early 2006, and have yet to bottom out. Industry experts predict that it will be at least 2010 before the housing market turns around. The recent sub-prime mortgage collapse has created a significantly more stringent compliance environment for borrowers to qualify for loans. The resulting slow down in real estate sales and refinances has caused a substantial drop in title premiums and resulted in increasing losses; in fact, the second quarter of 2008 marks the 8th consecutive quarter of declining title premiums for the industry. In 2007, only one of the major title companies reached profitability and most of the major title companies were not profitable through the first half of 2008.

Title companies have been actively trimming staff and cutting expenses over the last few years in an attempt to keep up with the declining revenue. Additionally, some title companies have been outsourcing title production to offshore BPOs to further reduce labor cost - a strategy that has not been as successful as some of the companies had hoped for - and in some cases, the resulting level of claims being paid has been unacceptable. Both of these strategies have caused significant impacts on the timing of the production of title products critical to the industry - a situation that impacts the timely issuance of title insurance policies. Title companies now find themselves in a difficult spot - required to provide the same level of service with a declining revenue base and an eroding infrastructure due to cost cutting measures - a situation that is a losing battle. Automation of the Title Production Process is the answer for the title industry - whether it is a Preliminary Report, a Commitment or other alternative title products - automation solutions are the industry's best alternative.

The title insurance industry has never before experienced a time of greater need to make changes than it is currently. Every title company has seen a significant decline in its transaction volume and this has occurred on the heels of more intense scrutiny and pressure by regulators and consumer groups to lower premiums. Higher rates of transaction fall out are being experienced more than at any time in history, so title companies are doing more work than ever on transactions that do not result in revenue. The stock value of the major title insurance underwriters has plummeted, and every title company is looking for ways to increase efficiency and decrease expenses. They're looking for solutions to sustain the day, and alternative business models that will work for the future. Local title companies are trying to develop regional markets, and regional title companies are trying to develop national markets in their efforts to find new revenue sources. An industry which has traditionally resisted radical change is becoming (albeit reluctantly) increasingly open to it. Although it might seem like an inopportune time to introduce automated solutions, the current industry adversity makes it the perfect time to consider a system that offers real solutions through new methods.

The Title Production Process – Steady As She Goes

Typically, title companies issue insurance policies that insure the owner's and lender's rights and interests in real property. Recorded documents affecting the property are reviewed by the title companies as part of their due diligence process prior to issuing policies. These recorded documents are indexed by County Recorders by the names of the parties to the instrument, which results in a data base that is not efficient for finding specific documents related to a particular parcel. As the title industry evolved, each title company began to re-index (post) these recorded documents to the parcels affected, and their indices and library of document copies became known as "title plants."

In the 1970's, title companies operating within a recording jurisdiction, began moving from hand posted title plants maintained by each title company, to one centrally maintained "joint plant" used by all member title companies. Each member title company shared in the expense incurred to develop and maintain the joint title plant. This information was eventually moved onto computers, and along with digitized images are the computerized title plants used by most title companies today. The individual title plants are now maintained and managed by companies who provide access to the indices and images for a fee. Currently the largest two providers of title plant indices and images are Data Trace/Data Tree and Property Insight.

The Title Production Process has been accomplished substantially in the same manner for the last 40 years (see Figure 1). Although the title companies do use technology to issue products, they have been slow to embrace evolving technologies, and the potential benefits from automating routine functions are significant. Some of the national underwriters have developed software programs to perform various processing functions, but they have not made them readily available. In many cases, these programs are not a cohesive processing system, but rather a patchwork of programs that do not or will not readily interface with the largely manual Title Production Process. Because of the reality of the current financial implications in the title industry, most underwriters do not have the inclination or resources to resolve these deficiencies internally. This presents an opportunity for other innovative companies with intimate knowledge of the title industry, to address this significant market challenge.

Without automation, the title file creation and assembly process can average as much as 30 minutes for a refinance transaction, and over an hour for other transactions. The title file is then processed through multiple departments to produce a preliminary report or commitment, which on an individual transaction basis normally takes from 2 to 8 hours. However, in the normal production process, where many transactions are received, bottle necks in processing normally occur and can cause the processing of transactions to take as long as 2 or more days. The title file is almost always a “physical” file that is printed, then continually maintained, located, retrieved, and stored throughout that closing process, and beyond. As a result of using physical files, their location must be in close proximity to the staff that requires access to the files to perform their duties. Also, the directly and unavoidably associated cost with creating physical files (paper, toner, file folders, etc.) is not trivial. In addition, the ongoing storage cost for a single title file (storage, access files, etc.) can be as much as \$20 per year, excluding the hidden cost of the exposure to lost and/or damaged files.

Generic Title Production Flowchart

The following flowchart (Figure 1) is a representation of the typical Title Production Process implemented in one form or the other by virtually every title company in America. There may be variations and minor differences from the steps and processes reflected, but effectively it has been the same largely, manual process for the last 40 years. Please note that the orange trapezoids represent manual steps – many that can be replaced or eliminated with an automated solution.

Automation of the Title Production Process – Your Knight in Shining Armor

Automation is the answer to the problems that are intrinsic to the largely manual Title Production Process of today. Not only will automation decrease the time and effort incurred in this process, but it will also help reduce the risk of excess claims that some title companies have seen by off-shore outsourcing. Automation of the Title Production Process can result in reducing the time required to produce title products from days to hours; from hours to minutes – increasing the number of transactions processed by each individual ensuring that the production process is less costly and more timely. Additionally, it will result in the elimination of unnecessary cost incurred for file supplies, paper, printing and storage related to the traditional hardcopy title files and documents. Digital title files are not only less expensive to create and maintain, they are also readily available to all parties that require access without having the files physically located with the parties or having the files retrieved from a central file location or storage.

Imagine that you are the individual responsible for the bottom line for your title company.

- Imagine an available solution that eliminates duplicate data entry on the part of your staff, which automatically captures the property chain, taxes and General Index information and allows you to do many more transactions with fewer resources.
- Imagine eliminating the logistics and cost of printing and assembling hardcopy files and providing an environment in which title file information can be easily shared as needed.
- Imagine a solution that allows you to provide all of the information needed to any party as easily as sending an email.
- Imagine enjoying all of these benefits while going “green” by not printing and copying documents and files – a great demonstration of corporate social responsibility.

Now imagine that solution available as a Software as a Service solution over the internet.

- Imagine a very low Total Cost of Ownership.
- Imagine no significant upfront investment.
- Imagine an automated Title Production Process that is only paid for as it is used.
- Imagine the immediate ROI on software with no upfront license fees or annual maintenance fees.
- Imagine that you have now been able to convert most of your fixed and semi-variable cost of title production to a completely variable expense.
- Imagine the increase to your bottom line for the changes that you need to make to be competitive in today’s title industry – A Win/Win Solution!

Financial Implications – The Bottom Line

Many factors come into play with a business decision, but the true bottom line for making any change is the financial impact. Does it make financial sense for my business to go through the implementation and really make the change? Will my operation be more efficient and effective while costing less to accomplish the same tasks or more than it does today? These are fundamental questions we ask ourselves and the answer to these questions is a resounding – YES – the automation of the Title Production Process makes business and financial sense.

The cost savings that will be generated by the implementation of an automated solution are real, but will vary from company to company depending upon the pre-implementation environment. As you might expect, companies are staffed differently - each one will have a different staffing mix and level of staff per transaction than others - along with different local compensation levels. The Title Production Process from company to company is largely the same, but there may be differences in the amount of manual process that will be replaced by automation.

Automating the largely manual Title Production Process (see Figure 1) should allow for an **increase in productivity ranging from 75% to 100 %**, depending upon the current state of staffing (prior staff reductions, outsourcing, etc.). The actual range of increased productivity will depend upon your labor mix of title searcher/typist and examiner/title officer, and the average number of transactions that are currently completed per hour by your staff.

Additionally by using digital title files, the cost savings from the reduction in use of paper, toner, files folders, etc. would be at least \$8 per transaction on average, assuming a file size of 150 pages. For a title company that averages as few as 1,000 transactions per month, that is a **cost savings of approximately \$100,000 per year**, excluding the ancillary costs of labor and facility space associated with creating and maintaining local files. This cost saving can represent as much as 1 to 2 percent of the bottom line.

The other major cost savings from using digital files comes from avoided long-term storage cost – typically in the range of \$15 to \$20 per file per year – with most files retained for 5 to 7 years due to regulatory requirements. For a title company that averages only 1,000 transactions per month, storage cost for physical files is a large hit to the bottom line. Assume a storage cost of \$17.50 per year per file - that equates to an **annual cost of over \$200 thousand** for that year's files alone - and if you consider file retention over a 5 years period for the same constant level of transactions, the **bottom line hit for file storage is over \$1 million annually**. Surely these kind of numbers weigh heavily on the results of an operation and make a strong case for digital files – a by product of the automation of the Title Production Process – and a practice that can be transitioned to easily over a few years time by starting with current files today.

Another area of effective cost savings can be realized by using a Software as a Service solution, where there is no significant investment in software or hardware as with traditional software solutions - just pay as you go – a completely variable cost. The ability to obtain an automated solution without a significant required investment will make the decision to change and enjoy the benefits of an automated Title Production Process that much easier.

Conclusion

The continuation of the Title Production Process as a largely manual system is inefficient and costly, and will certainly maintain the current path of eroding profits and non competitiveness. The Title Production Process is an area that nearly all title companies have addressed or are trying to address today as part of their cost cutting measures. In today's market environment, title companies must make changes that will not only increase their productivity but make strong contributions to their bottom line.

It is imperative that title companies act to implement the changes necessary to enjoy the productivity and financial benefits available with automated solutions. Some software providers offer solutions via the internet as Software as a Service, which is the most economical approach to answer the automation question for the Title Production Process. Implementing an automation solution will provide changes that will result in significant cost savings for today and far into the future.

About CentRealTech, Inc.

CentRealTech, Inc. provides an automated, single seat solution for the Title Insurance Industry delivered over the internet as a Software as a Service solution. The powerful One Click System virtually automates the Title Production Process, enabling title companies to effectively and efficiently process title orders. Founded in 2007, CentRealTech is a privately held software/technology company located in El Dorado Hills, CA that specializes in products and services for the title insurance industry and its real estate and lender customers.

Now, let's talk about the One Click System – Change Your Title Production Process Forever

In today's marketplace, you may have trouble finding many automated systems to replace/enhance your current Title Production Process. In fact, there are quite a few outsourcing companies that provide solutions – but they are not truly automated solutions that you can implement within your title plant – they are just another manual system performed by outside labor. There is only one true automated solution in the market today – one that is a true automated, single seat, full service solution for the title industry – and that is the One Click System from CentRealTech.

Using the One Click System, clients can reduce the processing time of orders to half of what they were prior to implementing the solution. A large amount of time and effort is eliminated upfront as you assemble and build your digital title file in about 3 to 4 minutes per transaction. The convenience of all applicable documents, product templates, write-up codes, etc. available together in one location allows for a very efficient one seat solution to perform title production and create title products.

The One Click System is delivered to customers via web browser and is offered as a Software as a Service solution, whereby customers only pay for each title order that is processed through the System. There is a modest one-time setup fee to establish a custom company profile within the user account, and any systems interface that maybe desired. The company profile includes underwriting criteria, custom code books and report/policy templates, and other items that allow for the processing of the title orders and production of customized title reports in a matter of minutes.

The One Click System is intuitive and user friendly. The significant product features include:

- Automated interface allowing data import from and export to existing systems
- Transactions can be processed individually or by batch
- Orders can be submitted via account access over the internet or via email
- Availability of title chain and related documents & images within seconds
- Initial draft of Preliminary Report/Commitment with available information automatically inserted within seconds
- Ability to populate title products with appropriate text from images, such as legal description, vesting, etc., using OCR technology and tools
- Documents & images selected in accordance with your underwriting criteria and hyperlinked to actual digital files for easy access and retention
- Ability to upload other digital documents from disparate systems or files and hyperlink those documents where appropriate
- Automatic creation of digital (paperless) title files including documents & images and title products
- Production of Preliminary Reports and Title Insurance Policies, including Endorsements
- Ability to Datedown (or update) title searches and files in seconds

- Digital (paperless) title file allows for cost effective storage and sharing and is always easily available from anywhere via the internet
- Easy creation of PDF documents or hyperlinked PDF documents to allow for distribution to applicable parties – real estate broker, escrow agent, homeowner, lender, attorney, etc.
- Customized underwriting guidelines, write-up codes, product templates, policy endorsements, etc.
- Customer support and account monitoring is provided as a standard service
- Professional services are available for title production outsourcing (Ultimate Service) and operations consulting

To learn more about the CentRealTech One Click System, the only automated, full service, one seat solution in the market today, please visit our website at www.centrealtech.com or contact us via email at info@centrealtech.com or call us at 916-273-9573.

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