1 Title Insurance Rate Filings and Premium Calculation

1.1 GENERAL DISCUSSION

In Tennessee, in recent years, Insurers have filed rates in which the one-time premium charged for an Owner's policy is equal to Loan policy rates. This was not always the case. Until recently, the rates for Owner's policies were higher than the rates charged for Loan policies. This rate differential was based on a perception of the difference in the risk assumed under each policy type. The following list explains how there is ample basis for a difference in pricing.

- ✓ The threshold for experiencing a loss is quicker in an Owner's policy than in a Loan policy because the Loan policy is anticipated to have a cushion of the equity in the property before they sustain a loss.
- ✓ Although coverage in a Loan policy is much broader, liability is more limited and there are more options available for settling claims.
- ✓ Liability under a Loan Policy decreases as the debt/loan is repaid.
- ✓ Statistically, liability under a Loan Policy will terminate in a little over 7 years as the collateral/property is sold/ refinanced or the loan is paid in full.

However, as of 2017, virtually all Insurers have filed rates in which the charge for an Owner's policy is identical to rates for Loan policies. Rates are required to be approved by the Tennessee Department of Commerce and Insurance, so changes infrequently occur, but there is always a chance that one or more Insurers may modify their rates in the future to create a price difference in an attempt to gain a competitive edge. Check with each of your Insurers for their rate structure and charge only what is authorized.

1.1.1 PREMIUM PRICING STRATEGIES

1.1.1.1 PROPERTY AND CASUALTY PRICING

The premium pricing strategy utilized for property and casualty lines of insurance is based on the assumption of certain unknown, but statistically anticipated, risks that may occur in the future. As such, the premiums charged for life insurance or homeowner's insurance will vary based on the assessment of a wide variety of factors (i.e., health of homeowner, his credit score, the crime or fire rate in the surrounding community, etc.) that could affect the statistical probability of a loss. Since these factors change over time, P&C policies have finite periods of coverage and are only renewable upon re-application or risk review which gives that P&C Insurer the opportunity to take a fresh look at the risk factors and an opportunity to re-price the renewal policy if appropriate.

1.1.1.2 TITLE INSURANCE PRICING

The assumptions made in pricing title insurance are much different. The pricing strategy for title insurance premiums is premised on the ability of the title agent to eliminate, or at least minimize, risks that could cause title insured losses. The cornerstone of title insurance rests on the premise that the *competent* title agent will be successful in his or her efforts to eliminate known risks identified in the anticipated *adequate search* of the public records. While there still remain risks that cannot be eliminated, statistically those risks have been determined to have a low potential for loss. As a result, the pricing for title insurance is <u>not</u> determined by the <u>type</u> of property (residential or commercial, high/low crime area, improved or vacant), the <u>owner</u> of the property (high/low credit scores, young or old, good/bad health) or <u>use</u> of the property (owner occupied, rental, farmland or industrial). The title insurance rate is premised on the anticipated success of the title agent to eliminate risk and, therefore, the rate is the same for all types of property, and varies only based on the amount of insurance purchased.

1.1.2 RATE FILINGS BY INSURERS ARE REQUIRED

Tennessee is one of a number of states throughout the country that requires title premium (a/k/a "rates") be filed and approved by the governmental body charged with the regulation and oversight of insurance carriers. The "Commissioner" of the Tennessee Department of Commerce and Insurance is the responsible official in this state. The procedure for having insurance rates approved is set forth in the T.C.A. § 56-35-111 "Companies to file rates -- Disapproval of rates by commissioner". Once approved by the Department, these become the only rates that can be charged for the policies and endorsements for that Insurer.

1.1.2.1 60 DAY WAITING PERIOD AFTER FILING OF ADJUSTED RATES

The Commissioner shall within sixty (60) days after the receipt of any filing disapprove any rate the Commissioner determines to be unfair, unjust or unfairly discriminatory. If there is no objection to the filing, the filing is "deemed" approved.

1.1.2.2 RATING BUREAU

In some states, Insurers belong to an organization called a Rating Bureau that is designed to act on behalf of all the Insurers in filing rates. Although rating bureaus are allowed in Tennessee (see T.C.A. § 56-35-132 "Rating organizations"), currently none exist and, as a result, all the Insurers handle their own filings.

1.1.2.3 GROSS PREMIUMS VS. RISK RATE

A title insurance "gross premium" is the total amount of money collected by the Insurer ("underwriter") directly or through its agent from the policyholder (or someone paying on behalf of the policyholder) as payment for the issuance of a title insurance policy. It is the title agent's responsibility to insure the gross premium charged to the policyholder is identical to the rate that would be calculated by reference to the Insurer's approved rate filing with the Department of Commerce and Insurance. The "premium" is not what the agent sends to the Insurer when he reports issuance of the policy.

1.1.2.4 COMPONENTS OF A GROSS PREMIUM

The "gross premium" charged for a title insurance policy will vary based on the county where the insured property is located. It is easiest to understand the differences in the filed rates for each county when you have a better understanding of what Insurers feel are the integral components of the overall risk assumption process. In "all inclusive" counties Insurers agree that the amount charged for each policy must be sufficient to cover the costs of (1) an adequate search of the public records, (2) a competent examination of the records found, and after #1 and #2 are complete, some money must be collected for (3) the remaining unavoidable risk assumed after the adequate search and examination. As such, in the "all inclusive" counties, the components of the "premium" charged involves "search", "examination" and "risk assumption".

In non-all inclusive counties, a/k/a "risk rate counties", the work associated with the "search" and "examination" components is performed (or controlled) by the title agent and as such, the title agent is normally entitled to retain the fees for performing those components. In these non-all inclusive counties the charge for "risk assumption" is the only component of the "premium" and is earned by the Insurer for the issuance of the policy. This latter charge for the "risk assumption" is generally referred to as the "risk rate".

The majority (89 out of 95) of Tennessee counties fall into the category of "risk rate counties". In those counties, the payment for the various components are paid directly to the entity whose responsibility it is to perform that component, i.e. the title agent charges his search and examination fees separately from the "risk assumption" or "risk rate" fee which is due to the Insurer. These are called "risk rate" counties, because the "gross premium" in those counties is only designed to compensate the Insurer for its "risk assumption" . Title agents are compensated separately for the search and examination functions and in these counties, there is no regulation of what can be charged for those activities.

In Shelby County, the "gross premium" is designed to include both the "risk assumption" component and the "examination" component, leaving the title agent to separately charge for their services in conducting the "search". Often times the charges for that "search" function are limited by what the Insurer states can be charged for those services, but these search fees are not part of the "gross premium" in Shelby County. Some Insurers also provide "Abstracts" (packages that contain copies/excerpts of all the documents that appear in a search of the records) for Shelby County via their own plants are required to file "abstract rates" for such service.

In the “all inclusive” counties (Knox, Davidson, Hamilton, and for *most* Insurers in Rutherford and Williamson counties) the “gross premium” is a single fee that includes all three components, i.e. “search”, “examination” and “risk assumption”. In this case, the consumer will be charged a “gross premium”, but he will not be charged separately for the “search” and “examination” functions the title agent performs. The only exception to this ‘all inclusive” rate might be where the search required multiple chains of title, encountered complex title issues or involve other unusual scenarios set out in the Insurers rate filing, but this would be a minor exception to the rule.

1.1.2.5 TIERED PRICING

Title insurance premiums in Tennessee are not uniform – no two insurance companies have filed the identical rates. All underwriters have adopted some type of “tiered” structure (also referred to as “rate brackets”) to calculate the appropriate premium for a particular transaction. This tiered formula allows for title insurance to be based on a rate per thousand dollars of insurance to be issued. Generally, as the amount of insurance increases, the rate per thousand is reduced incrementally. In fact most, if not all, Insurers have filed rates which require that rates may not be calculated on fractions of one-thousand dollars – rather, any portion of one-thousand is to be rounded up or down to the next full thousand or hundred dollar amount. The title agent needs to verify the rules established by each Insurer. Although it may be ‘easier’ for the title agent to always calculate a rate the same way, in cases where they represent different Insurers, this practice will likely result in the wrong rate for the other Insurer and could result in an overcharge or undercharge to the consumer.

1.1.2.6 RATE FILINGS MAY VARY BY COUNTY

Currently, Tennessee is one of a few states in the nation that has legislation and regulations that require Insurers to file different rates in certain counties specified by statute. The two different rates are commonly referred to as “risk rates” and “all-inclusive rates” (and there is a sub-category of “semi all-inclusive rates” required in Shelby County).

1.1.2.6.1.1 DEFINITIONS - RISK RATES

The Risk Rate is the premium charged to the title insurance consumer that is solely associated with the sale of title insurance. When risk rates are charged, the title agent is entitled to charge the customer fees for the search and examination of title *in addition to* the cost of the title insurance (risk rate). Risk rates are used when the property lies within 89 of the 95 Tennessee Counties (everywhere other than Davidson, Knox, Hamilton, and in some cases, Rutherford and Williamson counties, but you should verify the rates to be used with your Insurer). Shelby County has a special rate that is slightly different from those identified non-risk rate counties.

1.1.2.6.1.2 DEFINITIONS – ALL-INCLUSIVE RATES

An All-inclusive Rate is a rate that is to be charged to the title insurance consumer in specific counties. When this type of rate was originally established, this rate was only used in counties where Insurers maintained substantial title plants (historical repositories of title records) and the Insurer was providing both the insurance along with the search and examination services. The historical justification for this rate structure has outlived the original purposes that it was trying to meet, but today the rate structure continues to be required to exist.

The "all-inclusive" rate today is a rate that includes both the cost of the insurance and an additional charge to be retained by the title agent to compensate him or her for the search and examination of title. For that reason, the title agent cannot additionally charge the title insurance consumer for these services where this rate is used (except in unusual cases discussed earlier that are very rarely present).

It should be noted that although this is a filed rate for the issuance of a title policy, when the title agent remits their "net premium split" to the Insurer, most Insurers deal only with the "risk rate" component of the all-inclusive rate. This will be discussed in more detail in the section discussing "Calculation of remittance to Insurer".

1.1.2.6.1.2.1 ALL-INCLUSIVE RATES – (DAVIDSON, KNOX, HAMILTON, RUTHERFORD AND WILLIAMSON COUNTIES)

Rates in six (the five listed above and Shelby County) of the largest counties in Tennessee are *allowed* to file some form of "all-inclusive" rates. Knox, Davidson, Hamilton and Shelby have had inclusive rates for over twenty years, but Rutherford and Williamson are Their addition was established as a result of the passage of a regional title agent sponsored bill, SB3352 / HB3278 "Schedule of rates for title insurance" which amended T.C.A. § 56-35-129 and became effective March 23, 2012. Under the terms of this legislation, Insurers operating in counties with population greater than 175,000 (by 2010 Federal census, or any subsequent census) would be allowed to file "all-inclusive" rates for activity in those counties. It should be noted that the Department of Commerce and Insurance had earlier passed a regulation (see 0780-1-12-.02 " Filing of Rates") that required Insurers to file "all-inclusive" rates for activities in all counties with populations greater than 275,000 (by 1980 Census), but this rule has not yet been amended. As a result, Insurers are *required* by Rule to file some form of all-inclusive rates in Knox, Davidson, Hamilton and Shelby counties, but are *allowed* to file such rates in Rutherford and Williamson counties.

Title agents must verify whether their Insurer has filed all-inclusive rates in Rutherford and Williamson counties (and any other counties which may qualify in the future as census figures are revised) to determine if all-inclusive rates may be utilized.

1.1.2.6.1.3 SEMI-INCLUSIVE RATES (SHELBY COUNTY)

The above referenced regulation provides a slightly different rule for counties the size of Shelby County. Rates filed in Shelby County are a modified version of the "all inclusive" rates. While the other "all inclusive" counties require the title premium to include a portion of premium associated with the risk, search and examination of title, in Shelby County, the “semi-inclusive” rate is intended to cover only the risk and examination costs, but not the “charges for abstracts of title” a/k/a “search fees”. In Shelby County, Insurers file rates that include a number of specific prices for various title related search options. Therefore in Shelby County, agents are allowed to charge an “semi- inclusive” rate for that county (covering the “risk” and “examination” component premium), and then add their costs for the “search” of the title as indicated from the filed rate for those identified search fees.

1.1.3 STEPS TO CONSIDER IN CALCULATING A RATE

The discussion of a title insurance “rate” in Tennessee requires the title agent to go through several steps in a precise order:

1. For any type of policy, begin with the identification of the particular Insurer that will be issuing the policy, because most rates vary based on the Insurer, then
2. The title agent will need to identify the location of the property since Insurers have different rates based on the county where the property is located, then
3. The title agent must identify what type of policy is to be issued (because the rates for Owner’s coverage in some cases could differ from the rates for lender’s coverage). This is not a factor when the rate for an Owner’s and Loan policy are the same, then
4. The title agent must determine the amount of coverage that is to be issued which can vary based on the type of policy and Insurer guidelines, (some loan policies can be issued for amounts up to 120% of the loan amount) then
5. The title agent must identify what degree of coverage is to be issued, because both standard coverage and enhanced coverage policies are available on *residential* property, then
6. The title agent must determine which endorsements are required, some of which are issued at no charge and others for a flat rate, a percentage of the base premium, or include a minimum/maximum premium, then
7. The title agent must determine if there are any special rate rules in effect (simultaneous issuance with another policy, reissue credit for a prior policy within recent years, refinance discount, etc.) that require adjustment of the rate that would be charged in absence of those factors.
8. And once the policy premium is calculated, the title agent would need to add any additional fees for Closing Protection Letter charges (a/k/a CPL’s).

Unlike many property and casualty insurance products, the rate charged for a title policy does not normally vary based on an assessment of the risk associated with an individual policyholder or property.

In the following sections, we will discuss the process of computation of title insurance premiums, including reissue credit and other special rates on Owner's and Loan policies. The computation of split closing premiums is not included herein since the practice of split closings varies in locations throughout Tennessee.

1.1.4 JUSTIFICATION IN RATE DIFFERENCES – OWNER'S VS. LOAN POLICIES

Although some Insurers have adopted identical rates for both Owner's and Lender's policies, traditionally the rates have varied from each other. For the reasons listed below, there is substantially greater risk involved in an Owner's policy than one for the Loan. When identical rates have not been filed, the rates for Owner's Policies are higher than those for Loan policies for several reasons.

- First, coverage under an Owner's policy remains outstanding for an indeterminable period, that is to say, it continues as long as the Insured, his heirs or devisees retain an interest in the property. A Loan policy, on the other hand, expires when the loan described therein is satisfied (unless by foreclosure or other method at law).
- Second, as payments are made on the loan, the principal balance decreases and so does the liability of the Insurer. Conversely, the value of the Owner's policy increases in value as the owner's equity in the property increases.
- Third, a claim on a Loan policy is contingent on the lender suffering an actual loss – usually following a foreclosure sale. However, an owner can file a claim immediately upon discovery of a title defect or impending loss.

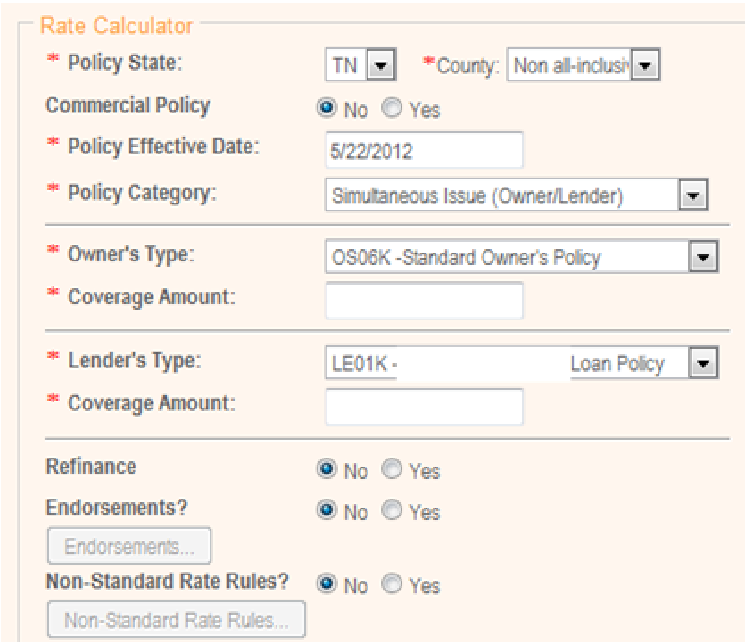
However, at the time this manual is being finalized, it is believed that Insurers have all adopted an identical rate for either the Owner's or Loan policies, in spite of the risk differential that exists between the two.

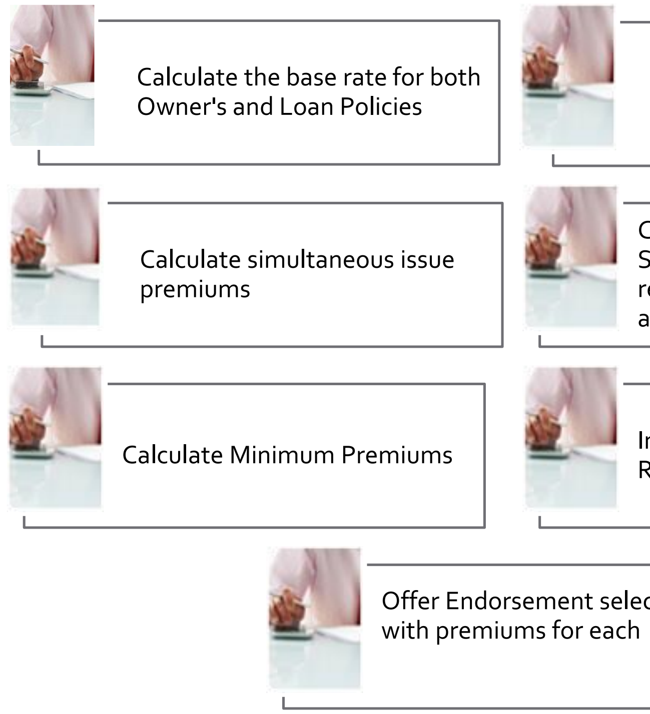
1.2 CALCULATING PREMIUMS

1.2.1 AUTOMATED RATE CALCULATORS

In today's world, most Insurers have rate calculators that they make available to their agents. Some are more full-featured than others. You will need to check with your Insurer to see what they offer. In that discussion, you should ask a number of questions to be sure the calculator offered is sufficient to meet your needs in the majority of situations. With lenders and Realtors demanding accuracy in the quotes that they receive prior to closing, total reliance on some rate calculators may be a mistake.

For a calculator to be effective it must:

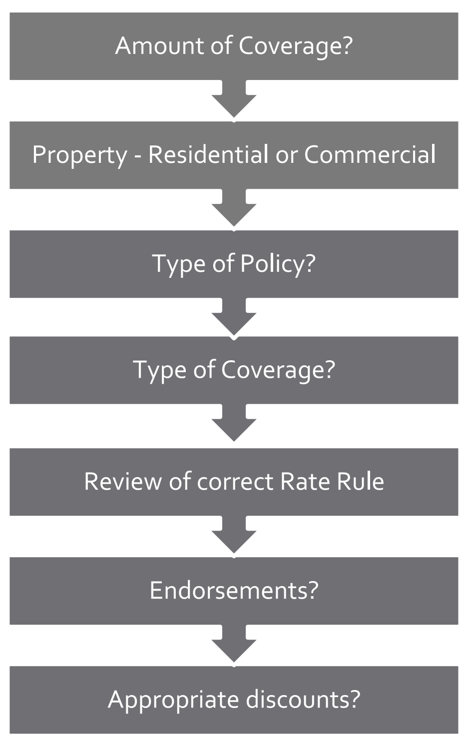




If the rate calculator does not offer options to handle all the various rate scenarios, then the title agent will be forced to manually make the required adjustments in order to charge the consumer the correct rate.

The following is a sample screen of an online calculator that prompts the agent to enter most of the possible variables that are associated with most policies.

Many calculators only perform basic rate calculations well, but require you to revert to the written rate filing for additional rate calculations. In many cases, the title agent must be familiar with the written rate filing in order to determine the proper input into even the most sophisticated electronic rate calculator. For example, assume the rate calculator has a button to allow the rate to be adjusted for reissue or substitution rates; however, in order to correctly know when to click the button, you must know the rate filing rules that define when a reissue or substitution rate is allowed. A calculator is a great tool and may simplify some of the math, but you must still access the rate filing for accurate premium calculation. For that reason, the balance of this material will attempt to provide instruction on calculation of the premium without the use of an electronic calculator.



1.2.2 STEPS IN MANUAL CALCULATION

One of the most fundamental aspects of the task of calculating the correct premium is to determine the amount of coverage to be afforded under the policy. Until you have determined that figure, you can't figure the correct policy premium.

Is it Residential or Commercial property? Enhanced coverage policies are not usually available for commercial property.

Next, you have to determine what type of policy will be issued, Owner's or Loan?

Next, you have to determine what type of coverage will be issued. Is it to be a "standard" or "enhanced" (if residential) coverage policy?

Then, once the coverage amount and type of policy is determined, you must apply the correct rate rules in accordance with the rates your Insurer has filed with the Tennessee Department of Commerce and Insurance. Most Insurers provide access to the full text version rate filing as well as a set of "charts" or calculators that correspond to various types of policies. The title agent is cautioned against relying solely on the "charts" or calculators since they oftentimes do not contain the text to the actual rate filing which provides details on whether the rate on the chart is appropriate. When your Insurer changes rates, the rate cards for the old rates are no longer correct, but may continue to be used by the title agent staff and result in incorrect rates.

Once the correct rate table is determined, you need to determine if any premium bearing endorsements are added. Some endorsements are authorized to be issued at no charge and others can only be added upon payment of the scheduled premium for each endorsement. In some cases, Insurers may have a filing that charges a set premium for a specific endorsement on a commercial transaction, but there is no charge for that same endorsement if a residential policy is being issued.

Finally, the agent must then determine whether the rate is subject to any form of discount as authorized in the rate filing. If there is a prior policy, this may entitle the consumer paying for the policy to a discounted rate depending on the age, type and amount of the pre-existing policy. If the circumstances are present to entitle the consumer to a discount, it must be given, *every time*. Conversely, there is no authority allowing a title agent to unilaterally decide to charge one of his "good customers" only a "reissue" or other discounted rate on every policy, just as a way of solidifying a business relationship. Charge the rate appropriate for each circumstance - no more nor less.

1.2.2.1 DETERMING AMOUNT OF COVERAGE

Underwriters will typically require that an Owner's Policy be issued for an amount equal to the fair market value ("FMV") of the property to be insured. Although the FMV is generally presumed to be the contract sales price on a purchase, most companies will agree insure for a greater amount if there is a reasonably belief that supports that value.

1.2.2.2 ROUNDING UP OR DOWN

In most rate filings, the Insurer has indicated that the calculation of the premium will be based on an amount of coverage that is either rounded up or down. In some cases the rates are rounded down to the next lowest $1,000 but others may direct you to round up to the next highest $100 or $1000. You must comply with the rule that is in the Insurer's rate filing for the policy you will be issuing. In some basic rate calculators, this rule may be built into the software, but in others, the title agent may be required to make that mental calculation when entering the amount of coverage for the calculator to use.

1.2.2.3 MINIMUM PREMIUMS

Most Insurers' rate filings have minimum premiums for the policies and some have minimum premiums for selective endorsements. These minimums will vary by Insurer and the title agent should be familiar with them.

1.2.2.4 EXCESSIVE INSURANCE

Title agents should also be aware that while insuring the value at higher than the purchase price may be allowed by your Insurer, under certain circumstances, the coverage under all title insurance policies is limited to the face amount of the policy, or the value of the property, so issuing a policy in excess of the actual value is of no benefit to the property owner. (See Limits of Liability in earlier discussions on Policy coverages).

1.2.2.5 INSURING LEASEHOLD INTERESTS

Determining the correct coverage amount for a Leasehold Owner's Policy should also be associated with the FMV of the leasehold estate. Unless you have a "ground rent" for "99-years, renewable forever" (which might be calculated just like an Owner's policy), the issuing agent should contact their Insurer's Underwriting Department for calculating the FMV of the leasehold.

1.2.3 PENDING IMPROVEMENTS/DISBURSEMENT COVERAGE

In the event improvements are anticipated to be made to the property being purchased, title agents should inquire of their Insurer as to the availability of providing lender's or property owners with coverage for increases in value to the property during anticipated immediate construction, up to the value of the property that will exist after the improvements are made. Because this coverage has a higher risk of mechanic's and materialmen's (PC/RC) lien losses, title agents should check with their Insurer's Underwriting Departments on permission and any special language to be used when insuring pending improvements.

In many cases, Insurers will allow the policy to be issued in the amount of the value anticipated to be "after the improvements are completed" provided the policy contains a "pending improvements" endorsement in an Owner's Policy or a "pending disbursements" endorsement in the Loan Policy (see the following sections for more detail).

1.2.3.1 PENDING IMPROVEMENTS COVERAGE FOR OWNERS

While every Insurer will have their own endorsement clause to be used in this situation, the following is a sample that should be similar to what your Insurer requires in Owner's policies:

> **Liability hereunder at date hereof is limited to $ ________ *(the original purchase price).***
>
> **Liability hereunder shall increase to the amount of insurance set forth on Schedule A as contemplated improvements are made, so that any loss payable hereunder shall be limited to said sum, plus the amount expended by or on behalf of the insured for additional improvements located upon the land at the time the loss occurs. Any such expenditures made for such additional improvements subsequent to the date of this policy shall be deemed made as of the date of this policy.**

This endorsement provides the property owner with a policy that automatically increases in coverage throughout the period that improvements are being incorporated into the property. If this endorsement were never issued, when the improvements are finally completed, the Insured could ask for an endorsement that increased his coverage up to the improved value of the property. However, there would have been no coverage beyond the purchase price during the construction period. Better practice is to discuss a "pending improvements" endorsement with your Insurer and the property owner.

1.2.3.2 PENDING DISBURSEMENT COVERAGE FOR LENDERS

While every Insurer will have their own endorsement clause to be used in this situation, the following is a sample that should be similar to what your Insurer requires in Loan Policies:

> **Pending disbursement of the full proceeds of the loan secured by the Mortgage herein insured, this policy insures only to the extent of the amount actually disbursed but increases as each disbursement is made, up to the face amount of the policy. At the time of each disbursement of the proceeds of the loan the title must be continued down to such time for possible liens, including mechanics' liens, and other objections, intervening between the date hereof and the date of such disbursement."**

This endorsement or clause (or similar language) is <u>not</u> to be used without express permission of your Insurer. The use of this endorsement or clause will expose the Insurer to risks associated with Mechanics' and Materialmen's liens and special procedures will be required during the disbursement period.

In these cases, the lender most often will handle all loan disbursements, and preliminary to such periodic disbursement, the lender may ask for the title agent to conduct a "down date " of the title to assure them that there are no intervening liens. Once you have provided the lender with the assurance of no additional liens, (usually through an endorsement that modifies the effective date of the policy) the disbursement will occur and coverage will increase.

1.2.4 POLICY TYPES

1.2.4.1 OWNER'S BASIC RATE CALCULATIONS

Unless otherwise specifically noted, reference to an "Owner's Policy" rate would anticipate issuance of the most current ALTA "standard/non-enhanced" Owner's or leasehold endorsement Owner's form title policy. Issuance of the extended/expanded/enhanced policy form, which would normally have a 10—20% higher premium to reflect the broader coverages, is commonly referred to as an "enhanced or extended coverage" policy.

1.2.4.1.1 AMOUNT OF COVERAGE – OWNER'S POLICY

The correct coverage amount for an Owner's Policy will normally be no less than the purchase price, but may be different based on the circumstances. (See sections above about "Determining Amount of Coverage" relative to pending improvements, appraised value and excessive insurance.)

1.2.4.1.2 CALCULATION PROCESS – OWNER'S

Considering the similarities in the tiered systems adopted by most underwriters in the region, these materials will help the student understand the way in which to calculate premiums by utilization of an example of a rate filing.

THE RATES PRESENTED HEREIN FOR "ACME TITLE INSURANCE COMPANY" ARE PURPOSEFULLY NOT THE SAME AS ANY THAT HAVE BEEN ADOPTED BY ANY TENNESSEE UNDERWRITER. THEY ARE SET FORTH FOR ILLUSTRATIVE PURPOSES ONLY AND YOU SHOULD CONTACT YOUR INSURER AND FOLLOW ANY INSTRUCTIONS THAT THEY PROVIDE FOR CALCULATION OF THEIR POLICY RATES OR INTERPRETATION OF THEIR RATE FILING.

The following table is a hypothetical tiered rate schedule for "Acme Title Insurance Company:" Note that this hypothetical Insurer continues to have filed different rates for Owners and Loan Policies. Therefore some of the calculation examples the follow may be slightly more complex than what you may have to compute is your Insurer has filed the same rate per thousand for both Owners and Loan policies.

Sample Rate Manual Text appears below as same may appear in an Insurer's rate filing:

RATES FOR OWNER'S AND LEASEHOLDER'S POLICIES

$7.00 per thousand (or fraction thereof) up to and including $100,000.00 of coverage, then

$6.00 per thousand (or fraction thereof) from $100,000.01 up to and including $200,000.00, then

$5.00 per thousand (or fraction thereof) from $200.00.01 up to and including $500,000.00, then

$4.00 per thousand (or fraction thereof) for all amounts over $500,000.00.

Minimum premium of $50.00.

Coverage shall be rounded up to the nearest $1,000

Or, the agent may be provided a pre-printed Chart that may look similar to this:

	Owner's rate	
TIER-1	up to $100,000 insurance policy	$7/$1,000
TIER-2	$100,001 up to $200,000 insurance	$6/$1,000
TIER-3	$200,001 up to $500,000 insurance	$5/$1,000
TIER-4	$500,001 and over	$4/$1,000
	Coverage shall be rounded up to the nearest $1,000	Minimum - $50.00

In either case, the rate can be manually calculated, even if an electronic rate calculator is provided.

To understand how the tiered rate chart works, the agent must first realize that different parts of the sales price may be calculated at different rates. The best way to understand the way to calculate premiums is by way of example. The following three are based on the table provided above and the stated assumptions.

Examples

<u>Owner's Full Rate Example #1:</u>

- <u>Assumption: No Loan policy is issued simultaneously</u>
- <u>Assumption: Sales price = $95,100</u>

First, the coverage value must be rounded UP to the next thousand = $96,000. Then, since this sales price is less than the first tier ($100,000), the entire premium will be calculated at the rate of $7 per thousand. $96,000 x $7 per thousand - there are 96 thousands at $7 each

96 x $7 = $672 premium

<u>Owner's Full Rate Example # 2</u>:

- <u>Assumption: No Loan policy is issued simultaneously</u>
- <u>Assumption: Sales price = $257,650</u>

Again, the value must first be rounded UP to the next thousand = $258,000. Since this value is greater than the first tier, only the first $100,000 will be charged at that rate.

100 x $7 = $700 premium (the first $100 thousand at TIER-1)
100 x $6 = $600 premium (the next $100 thousand at TIER-2)
58 x $5 = $290 premium (the next $58 thousand at TIER-3)
======
$1,590 premium = total premium (sum total of TIERS 1, 2, 3)

<u>Owner's Full Rate Example #3</u>

- <u>Assumption: No Loan policy is issued simultaneously</u>
- <u>Assumption: Sales price = $800,050</u>

Step one is to round UP to the next thousand = $801,000. This transaction will actually involve four tiers, however the principles are no different from the above example.

100 x $7 = $ 700 premium (the first $100 thousand at TIER-1)
100 x $6 = $ 600 premium (the next $100 thousand at TIER-2)
300 x $5 = $1,500 premium (the next $300 thousand at TIER-3)
301 x $4 = <u>$1,204 premium (the next $301 thousand at TIER-4)</u>
========
$4,004 premium = total premium (sum total of TIERS 1, 2, 3, 4)

But as noted several times above, the *correct* premium may be subject to a number of different variables beyond the scope of the tiered rate chart. If this was a Simultaneous Issue policy, or there was a prior qualifying policy for which a Reissue rate were to be applicable, or if some Premium bearing endorsements were to be issued, those costs would be added or cause adjustment to the base premium.

1.2.4.2 LOAN POLICY BASIC RATE CALCULATIONS

Unless otherwise specifically noted, reference to a "Loan Policy" rate would anticipate issuance of the most current ALTA "standard/*non-enhanced"* Loan form title policy. Issuance of the extended/expanded/enhanced policy form, which would have a 10—20% higher premium to reflect the broader coverages, is commonly referred to as an “enhanced” policy.

1.2.4.2.1 AMOUNT OF COVERAGE – LOAN POLICY

In general, most underwriters will not permit the issuance of a Loan policy for less than the amount of the full principal debt secured. However, most will permit the issuance of a policy in an amount which exceeds the principal debt to cover unamortized interest, foreclosure expenses and costs incurred by the lender in possession. Please verify what your Insurer’s rules are in this area, but in most cases, the amount of the new loan will dictate the amount of premium to collect for the title policy.

1.2.4.2.2 CALCULATION PROCESS - LOAN

Here is the hypothetical tiered Loan Policy rate schedule for the Acme Title Insurance Company:

	Lender’s rate	
TIER-1	up to $100,000 insurance policy	$6/$1,000
TIER-2	$100,001 up to $200,000 insurance	$5/$1,000
TIER-3	$200,001 up to $500,000 insurance	$4/$1,000
TIER-4	$500,001 and over	$3/$1,000
	Coverage shall be rounded up to the nearest $1,000	Minimum = $50.00

And now, for some examples, with the following assumptions:

Loan Full Rate Example # 1

- Assumption: No prior Owner’s Policy , therefore no “reissue” credit is appropriate
- Loan amount = $267,300

Step one is to round UP to the next thousand - $268 thousand.

100 x $6 = $600 premium (the first $100 thousand at TIER-1)
100 x $5 = $500 premium (the next $100 thousand at TIER-2)
68 x $4 = $272 premium (the next $68 thousand at TIER-3)
========

$1,372 premium = total premium (sum total of TIERS 1, 2, 3)

Loan Full Rate Example # 2

- Assumption: No prior Owner's Policy , therefore no "reissue" credit is appropriate
- Assumption: Loan amount = $683,245

100 x $6 = $ 600 premium (the first $100 thousand at TIER-1)

100 x $5 = $ 500 premium (the next $100 thousand at TIER-2)

300 x $4 = $1,200 premium (the next $300 thousand at TIER-3)

184 x $3 = $ 552 premium (the next $184 thousand at TIER-4)

=======

$2,852 premium = total premium (sum total of TIERS 1, 2, 3, 4)

1.2.4.3 REISSUE RATES/ NON-PURCHASE DISCOUNT

Each Insurer may have their own limitations and restrictions on reissue/non-purchase rates. Before determining eligibility, contact your Insurer

However, it is the practice of Insurers to require their settlement agents/title insurance producers to take the initiative to advise the purchaser/lender of any appropriate rate discount rather than rely on them to make the request for the discount.

Most, if not all, Insurers in Tennessee have rate filings that authorize a discount to be given to certain prospective policyholders depending upon certain circumstances. At one time this type of discount was called a "Reissue rate" and allowed only in those cases where (for and Owner's discount) the title agent was provided evidence of a prior Owner's policy and (for a lender's discount) proof of the existence of a prior Loan policy on the most recent transaction in the chain of title. The rules have varied widely from Insurer to Insurer in the past, so it is best to review your Insurer's filing to be sure you are following their current rate filing.

However, in recent years, some Insurers have adopted "Non-purchase Loan" rate filing that provides that any lender will be entitled to a specified discount in any non-purchase (i.e. refinance) transaction. This type of filing does not require proof of any form of prior policy. The amount of the discount varies by Insurer and may vary even by type of policy issued.

In most cases, where a new Owner's or Leasehold Owner's policy is to be issued on real property which is currently insured by an Owner's or Leasehold Owner's policy issued by any reputable title Insurer licensed in Tennessee, a reissue rate (or discount) may apply up to the face amount of any such prior Owner's or leasehold Owner's policy currently in effect.

1.2.4.3.1 RATIONALE FOR REISSUE DISCOUNTS

Why is there a discount? In theory, a large portion of the title premium is associated with the work necessary to *properly* search the public records and examine those findings before action could be taken to correct any defects determined to exist. There is an assumption that all prior title policies employed rigorous searches, quality examination and curative work. As a result, the assumption is that the process of search, examination and curing defects on current transactions could be shortened since this set of steps had already been accomplished for all documents in the chain of title except those subsequent to the prior policy. Conceptually, since the abbreviated examination period and time associated with curative work would be less costly, that portion of the premium allocated to risk elimination could likewise be reduced.

An additional reason for providing the discount was the anticipated reduction in the exposure to a risk of eventual loss. Since most Insurers require a prior Owner's policy to be produced, Insurers relied upon the hope that they could, with that Insured's assistance, seek to have losses in the back chain of title covered by the Insurer who issued the prior Owner's Policy. While this was not always possible, in many cases the current Insurer avoided payment of losses if the property had been previously insured.

While the concept of a discount survives, in the recent past, many of the assumptions upon which it was founded have proven incorrect. Because of the pressure to handle the intense spike in title insurance activity in the boom periods, many processes utilized in the past by the best title professionals were ignored. Search periods were reduced (sometimes down to as little as "current owner searches") and with limited searches, there was an inability to identify defects that may have appeared in the chain of title. In other cases, even some of the defects identified were not subjected to the anticipated curative process as Insurers allowed agents to rely on inter industry "Mutual Indemnity Agreements". That practice allowed some routine correctible matters (prior outstanding deeds of trust in the chain, failure to inquire into the necessity of joinder of a spouse, etc.) to remain untouched.

Additionally, some Insurers relaxed the "production of the policy" rule and allowed the discounted rate to be granted is there was "proof of a prior policy" (i.e. copy of a HUD-1 showing payment for a prior policy). But even when a copy of the prior policy was required, in practice, the policy was rarely produced in a *timely* fashion (i.e. early in the transaction so the prior policy could be used as a "starter") . As a result, the title to the full chain was reexamined anyway and no time savings were achieved. Better practice is to require the prior policy to be delivered early in the transaction, but regardless of when it is received, it should be reviewed to verify that there were no matters disclosed that would be inconsistent with the policy you are prepared to issue. .

1.2.4.3.2 TYPE OF PRIOR POLICY JUSTIFYING REISSUE RATES

In spite of the laxity of other aspects of the underlying assumptions justifying the reissue discounts, most Insurers still require the prior policy produced (or proven) to be an Owner's policy, and preferably for the most recent transaction on the chain of title. Because Loan Policies will by their terms expire and oftentimes have underwriting requirements that do not require the listing of references to easements, restrictions, etc., most Insurers will not allow these to be used as a basis for a reissue discount. You should check with the Underwriting Department of your Insurer.

1.2.4.3.3 CLASS ACTION LITIGATION RISKS

Since the insurance regulators and consumer watchdog groups continue to protect the right of policyholders from paying more than they are required to pay, title agents must be prepared to provide these discounts whenever a prior policy can be produced (or can be proven to exist). There has been a rash of investigations from both insurance regulators and class action litigation firms who analyze whether title insurance consumers are being offered the discount to which they are entitled. These suits and examinations can result in fines in the millions of dollars and for that reason documentation evidencing the offer of the discount and the reason why a discount was not provided should be maintained to protect yourself and the Insurers you represent.

1.2.4.3.4 QUALIFICATION FOR REISSUE RATE

It is important to keep in mind that not every prior policy will justify a reissue rate. Every Insurer has their own criteria of what is a qualified prior policy, but many exclude:

- all policies except Owner's Policies; and/or
- certain types of Owner's Policies (for example some of the "short form" policies with generic exceptions; and/or
- policies from certain agents (whose work they have deemed as unreliable) or Insurers no longer in business; and/or
- policies that were issued further back in the chain than the last transaction, etc.

You need to verify what is an *acceptable* prior policy from the Underwriting Department of your Insurer.

1.2.4.3.5 CALCULATION OF OWNER'S REISSUE RATES

In many instances in Tennessee, underwriters have filed reissue rates which calculate out to a twenty to thirty percent (20-30%) discount – or said another way – the new policy is paid at seventy to eighty percent (70-80%) of normal title rates. This method of calculation is not required and it is not necessarily followed by every underwriter. As such, a settlement agent needs to be familiar with the specific rates filed by their underwriter.

While the language, age of qualified prior policy and percentage of discount allowed may vary from Insurer to Insurer, the following is hypothetical language for the Acme Title Insurance Company that may be similar to what appears in your Insurer's rate filing:

> **"REISSUE RATES FOR OWNER'S, LEASEHOLDER'S AND LOAN POLICIES**
>
> **The Company may recognize and allow a reissue rate of " X "% of the rates for full coverage policies when application is made for an Owner's , Leaseholder's or Loan policy and an Owner's title policy has been issued within ten years prior to such application by a reputable title insurer licensed in Tennessee. The reissue rate is applicable only up to the face amount of the previous policy. For insurance in excess of the amount of the previous policy, the rates in the applicable bracket or brackets as set out in the rates for the full coverage policy shall be charged. A minimum premium of $100.00 will be charged."**

Note that the minimum premium on for a reissue rate may vary from the minimum premium for policies without any discounts.

In some cases, Insurer's rate filings will contain a chart that will show the reissue rate in a Tier by Tier format similar to charts that appear in the full coverage rates. For the purpose of this instructional material, the following hypothetical chart which shows both the "full" rate and the "reissue" rate for an Owner's Policy is included. However, please note that in order to make the computation examples easier to follow, both full and reissue rates will be presented in <u>even dollar amounts</u> (in real life, a 70% reissue rate on a $7.00 full rate Owner's Policy would be $4.90, but using that number in the computations would not be as easy to follow as $5.00).

	Owner's or Leasehold	Full Rate	Reissue Rate
TIER-1	up to $100,000 insurance policy	$7/$1,000	$5/$1,000
TIER-2	$100,001 up to $200,000 insurance	$6/$1,000	$4/$1,000
TIER-3	$200,001 up to $500,000 insurance	$5/$1,000	$3/$1,000
TIER-4	$500,001 and over	$4/$1,000	$2/$1,000
	Minimum Premium	$50	$100
	Rounding UP to nearest $1000		

As with Owner's full rates, different parts of the sales price may be calculated at different rates – and in this case, part of the rate may utilize the "Reissue Rate" column of the chart, and part may require reference to the "Full rate" column of the chart. The best way to understand the steps to calculate a premium is through an example. The following are based on the tables provided above.

First, the prior Owner's policy must be presented (or proven) and its liability amount determined. It will be for more or less than the new sales price (rarely, if ever, will the new policy be for the exact same amount.) So, let's try it both ways with two examples:

Owner's Reissue Example #1

- Assumption: Sales price = $235,000
- Assumption: Prior policy = $190,000

Since the prior policy is only $190,000, the first $190 thousand is calculated at reissue rates, and the balance of $45 thousand will be calculated at full rates – in the appropriate bracket.

100 x $5 = $500 premium (the first $100 thousand at TIER-1 reissue rates)
90 x $4 = $360 premium (the next $90 thousand at TIER-2 reissue rates)
10 x $6 = $ 60 premium (the next $10 thousand at TIER-2 full rates)
35 x $5 = $175 premium (the next $35 thousand at TIER-3 full rates)
========
$1,095 premium = total (sum of reissue TIERS 1, 2 + full TIERS 2, 3)

Recap - how did we do that? The first $190 is calculated utilizing the reissue rate chart. As such, the first $100 uses the first tier of $5 per thousand. The balance of the $190 is in the second tier and calculated at $4 per thousand. Everything above the first $190 thousand must be calculated at full Owner's rates. The brackets must still be utilized, so the premium is determined for a policy of greater than $190 thousand but up to $235 thousand. As such, the second tier ($6 per thousand) must be utilized for the first $10 thousand (the amount remaining between $190 thousand and $200 thousand). The balance (the amount between $200 thousand and $235 thousand) is calculated utilizing the third tier of full Owner's premium. Everything is added together and the calculation is complete.

Owner's Reissue Example #2

- Assumption: Sales price = $235,000
- Assumption: Prior policy = $250,000

In some economic cycles, this is a recurring situation, when prices of homes have declined. In good economies, this rarely occurs. However, where the prior policy equals or exceeds the new policy to be issued, the entire new policy premium is calculated at reissue rates and the full rate chart may be ignored.

100 x $5 = $500 premium (the first $100 thousand at TIER-1 reissue rates)

100 x $4 = $400 premium (the next $100 thousand at TIER-2 reissue rates)

35 x $3 = $105 premium (the next $35 thousand at TIER-3 reissue rates)

=======

$1,005 premium = total premium (sum of reissue TIERS 1, 2, 3)

<u>Owner's Reissue Example #3</u>

- <u>Assumption:</u> <u>Sales price = 765,000</u>
- <u>Assumption: Prior policy $540,000</u>

As such, the first $540 thousand will be calculated at reissue rates, and the balance of $225 thousand (in bracket from $540,000 – $765,000) at full rates.

100 x $5 = $500 premium (the first $100 thousand at TIER-1 reissue rates)

100 x $4 = $400 premium (the next $100 thousand at TIER-2 reissue rates)

300 x $3 = $900 premium (the next $300 thousand at TIER-3 reissue rates)

40 x $2 = $ 80 premium (the next $40 thousand at TIER-4 reissue rates)

225 x $4 = $900 premium (the next $225 thousand at TIER-4 full owner rates)

========

$2,780 premium = total (sum of reissue TIERS 1, 2, 3, 4 + full TIER 4)

1.2.4.3.6 CALCULATION OF LOAN REISSUE PREMIUM

While the language, age of qualified prior policy and percentage of discount allowed may vary from Insurer to Insurer, the following is hypothetical language for the Acme Title Insurance Company that may be similar to what appears in your Insurer's rate filing:

> **"REISSUE RATES FOR OWNER'S, LEASEHOLDER'S AND LOAN POLICIES**
>
> **The Company may recognize and allow a reissue rate of " X "% of the rates for full coverage policies when application is made for an Owner's, Leaseholder's or Loan policy and an Owner's title policy has been issued within ten years prior to such application by a reputable title insurer licensed in Tennessee. The reissue rate is applicable only up to the face amount of the previous policy. For insurance in excess of the amount of the previous policy, the rates in the applicable bracket or brackets as set out in the rates for the full coverage policy shall be charged. A minimum premium of $100.00 will be charged."**

Once again, note that the minimum premium on for a reissue rate may vary from the minimum premium for policies without any discounts.

In some cases, Insurer's rate filings will contain a chart that will show the reissue rate in a Tier by Tier format similar to charts that appear in the full coverage rates. For the purpose of this instructional material, the following hypothetical chart which shows both the "full" rate and the "reissue" rate for a Loan Policy is included. However, please note that in order to make the computation examples easier to follow, both full and reissue rates will be presented in even dollar amounts (in real life, a 70% reissue rate on a $6.00 full rate Loan Policy would be $4.20, but using that number in the computations would not be as easy to follow as $4.00). As noted earlier with respect to Owner's reissue rates, the particular Insurer involved should be contacted to determine any restrictions or requirements involved with the charging of reissue rates.

	Loan Policy	Full Rate	Reissue Rate
TIER-1	up to $100,000 insurance policy	$6/$1,000	$4/$1,000
TIER-2	$100,001 up to $200,000 insurance	$5/$1,000	$3/$1,000
TIER-3	$200,001 up to $500,000 insurance	$4/$1,000	$2/$1,000
TIER-4	$500,001 and over	$3/$1,000	$1/$1,000
	Minimum Premium	$50	$100
	Rounding UP to nearest $1000		

<u>Loan Reissue Example #1</u>

- <u>Assumption:</u> <u>Loan amount = $327,000</u>
- <u>Assumption: Prior Owner's Policy = $280,000</u>

Since the current Owner's policy is only $280,000, the first $280 thousand is calculated at reissue rates, and the balance of $47 thousand will be calculated at full rates – in the appropriate bracket.

100 x $4 = $400 premium (the first $100 thousand at TIER-1 Loan reissue rates)
100 x $3 = $300 premium (the next $100 thousand at TIER-2 Loan reissue rates)
80 x $2 = $160 premium (the next $80 thousand at TIER-3 Loan reissue rates)
47 x $4 = $188 premium (the next $47 thousand at TIER-3 full Loan rates)
=======
$1,048 premium = total (sum of reissue TIERS 1, 2, 3 + full TIER 3)

Recap - The first $280 thousand was calculated utilizing the Loan reissue rate chart. As such, the first $100 thousand uses the first tier of $4 per thousand. The next $100 thousand of the $280 thousand is in the second tier and calculated at $3 per thousand. The remaining balance of $80 thousand is in the third tier and priced at $2 per thousand. Everything above the first $280 thousand must be calculated at full Loan rates. The brackets must still be utilized, so the premium is determined for a policy of greater than $280 thousand but up to $327 thousand. In this case, the entire $47 thousand is included in the third tier full rate at $4 per thousand. Everything is added together and the calculation is complete.

Loan Reissue Example #2

- Assumption: Loan amount = $327,000
- Assumption: Prior policy = $360,000

This is not so unlikely a situation since consumers are often refinancing loans within the first couple years of purchase. Where the Owner's policy equals or exceeds the new Loan policy to be issued, the entire new Loan policy premium is calculated at reissue rates and the full rate chart may be ignored.

100 x $4 = $400 premium (the first $100 thousand at TIER-1 loan reissue)
100 x $3 = $300 premium (the next $100 thousand at TIER-2 loan reissue)
127 x $2 = $254 premium (the next $80 thousand at TIER-3 loan reissue)
=======
$954 premium = total premium (sum of reissue TIERS 1, 2, 3)

Loan Reissue Example #3

Assumption: Loan amount = $676,000

Assumption: Prior Owner's Policy=$ 487,000

As such, the first $487 thousand will be calculated at reissue rates, and the balance of $189 thousand (in bracket from $487,000 – 676,000) is at full rates.

100 x $4 = $400 premium (the first $100 thousand at TIER-1 Loan reissue)
100 x $3 = $300 premium (the next $100 thousand at TIER-2 Loan reissue)
287 x $2 = $574 premium (the next $287 thousand at TIER-3 Loan reissue)
13 x $4 = $ 52 premium (the next $13 thousand at TIER-3 full Loan rates)
176 x $3 = $528 premium (the next $176 thousand at TIER-4 full Loan rates)
======

$1,854 premium = total (sum of reissue TIERS 1, 2, 3 + full TIERS 3, 4)

1.2.4.4 SIMULTANEOUS ISSUE RATES

Most, if not all, Insurers have what is referred to as "simultaneous issue" rates. This is a special rate will be computed when a Loan Policy is purchased at the same time the property owner is purchasing an Owner's Policy. This often happens in the initial transfer of title to a new purchaser.

The general rule, applied by most Insurers, is that when a purchaser buys an Owner's Policy, and the lender is also requiring coverage for a <u>loan which is equal to or less than the Owner's policy amount</u>, the property owner (who is paying for both in most cases) will pay the regular Owner's Policy rates, but only pay a flat add-on fee for the Loan policy that is issued at the same time. The "add-on" fee will be in lieu of any other premium charged for the Loan Policy coverage. Most Insurers require the Owner's and Loan policies must cover the same real property and have the same effective date

Filed rates of the various Insurers operating in Tennessee show most simultaneous issue fees are between $25 and $100, but you must check with your Insurer to confirm the amount and conditions for this add-on fee.

In the event the Loan Policy exceeds the Owner's coverage, you must add the Simultaneous Issue fee to any additional premium that must be collected. Many Insurers have extended this simultaneous issue rate to multiple Loan policies if all are issued at the same time.

Assume that The Acme Title Insurance Company has the following Owner's and Loan rates and a $35.00 simultaneous issue premium.

	Loan Policy	Owner's Rate	Loan Rate
TIER-1	up to $100,000 insurance policy	$7/$1,000	$6/$1,000
TIER-2	$100,001 up to $200,000 insurance	$6/$1,000	$5/$1,000
TIER-3	$200,001 up to $500,000 insurance	$5/$1,000	$4/$1,000
TIER-4	$500,001 and over	$4/$1,000	$3/$1,000
	Minimum Premium	$50	$100
	Rounding UP to nearest $1000		

<u>Simultaneous Issue Example #1</u>

- Assumption: Owner's Policy = $100,000
- Assumption: Loan Policy = $80,000

100 x $7 = $700 premium (Owner's rates on full sales price)

$ 35 simultaneous issue Loan premium for $80,000 Loan policy

=======

$735 total premium collected for two policies

Simultaneous Issue Example #2

- Assumption: Owner's Policy = $100,000
- Assumption: Loan Policy = $80,000
- Assumption: 2nd Deed of Trust Policy = $10,000

100 x $7 = $700 premium (Owner's rates on full sales price)

$ 35 simultaneous issue Loan premium for $80,000 Loan policy

$ 35 simultaneous issue Loan premium for $10,000 Loan policy

========

$770 total premium collected for three policies

Simultaneous Issue Example #3

- Assumption: Owner's Policy = $190,000
- Assumption: Loan Policy = $210,000

Although not a common occurrence, there will be occasions when a Loan policy will exceed the Owner's amount (i.e. VA loans where all closing costs are funded, or land purchase plus construction financing). Here is how it works:

100 x $7 = $700 premium (TIER-1 Owner's rates on first $100 thousand)

90 x $6 = $540 premium (TIER-2 Owner's rates on next $90 thousand)

$ 35 simultaneous issue (for the first $190 of the loan)

10 x $5 = $ 50 premium (Loan rates – TIER-2 next $10 thousand loan)

10 x $4 = $ 40 premium (Loan rates – TIER-3 next $10 thousand loan)

========

$1,365 total premium (sum of TIERS and simultaneous issue rate)

Simultaneous Issue Example #4

- Assumption: Owner's Policy = $378,000
- Assumption: Loan Policy = $712,000
- Assumption: Prior Owner's Policy = 298,000

In an attempt to really challenge your knowledge of how these rates all fit together, let's further assume that the sellers have come to settlement with a copy of their Owner's title insurance policy in the face amount of $298,000. [Look at "Calculation of Owner's Reissue Rates" section above if you need the see the reissue rate to apply] Here is how it works:

100 x $5 = $500 premium (TIER-1 Owner's reissue rates on first $100 thousand)
100 x $4 = $400 premium (TIER-2 Owner's reissue rates on next $100 thousand)
98 x $3 = $294 premium (TIER-3 Owner's reissue rates on next $98 thousand)
80 x $5 = $400 premium (TIER-3 Owner's full rates on next $80 thousand)
$ 35 simultaneous issue (for the first $378 thousand of the loan)
122 x $4 = $488 premium (TIER-3 full Loan rates on next $122 thousand of loan)
212 x $3 = $636 premium (TIER-4 full Loan rates on next $212 thousand of loan)
========
$2,753 total premium (sum of TIERS and simultaneous issue rate)

1.2.4.5 OTHER SPECIAL RATES AND PREMIUMS

The vast majority of calculations can be completed utilizing the formulas and techniques shown above. There are, however, other rates which have been filed by some or all Insurers in Tennessee.

As stated several times already, it is important to remember that all Insurers require their settlement agent/title insurance producers to take the initiative to advise the consumer of any rate discounts, rather than to rely on the consumer to make the request for the rate discount. Most of these unique rates are also subject to a tiered structure so the principles shown above will still apply. Some of the more common are as follows:

1.2.4.5.1 RATES FOR EXTENSION OF OWNER'S POLICY

Check your Insurer's rate filing or call their Underwriting Department to verify the availability of this rate. If the insured under a current Owner's policy requests that the policy be endorsed for the sole purpose of advancing the policy date appearing in Schedule A, most Insurers will consider such requests for legitimate reasons. Whenever there is a request unrelated to a current transaction, the agent should check with their Insurer's Underwriting Department. If approved, then the Owner's policy may be so endorsed upon an update of title and the payment of the additional premium at the applicable rate.

1.2.4.5.2 ALTA HOMEOWNERS / ENHANCED LOAN POLICY

This Owner's Policy form is typically available to natural persons owning real property improved by an owner-occupied 1-4 family residential dwelling or Condominium unit. These are enhanced coverage policies for which each Insurer has filed premiums. Rather than a separate tiered structure, many underwriters have filed premiums based on a percentage of the standard 2006 ALTA Owner's premium. Typically, the enhanced policy premium is 10- 20% more than the standard 2006 ALTA Owner's premium.

1.2.4.5.3 REISSUE RATES FOR ENHANCED POLICIES

The concept and method of calculation are identical to that of reissue on a 2006 ALTA Owner's policy; however, the actual dollars may be different based on filed rates of the Insurer.

1.2.4.5.4 SUBSTITUTION LOANS

When a loan is made to the same borrower on the same property, title to which has been insured in connection with the original loan that is now being refinanced, the old (prior Loan) policy is used to calculate a discount on the new Loan policy to be issued. Some Insurers no longer offer substitution rates and some provide a tiered structure based on age of the prior Loan policy (see the hypothetical below).

RATES FOR SUBSTITUTION LOAN POLICIES

When the same borrower makes a substitution loan on the same property the title to which was insured by a reputable title insurance company on the original loan, the following rates will be charged for that portion of the new Loan policy equivalent to the current unpaid principal balance of the original loan.

Age of Original Loan	**Rates**
4 years or under	60% of the filed rates
From 4 years to 6 years	70 % of the filed rates
From 6 years to 8 years	80% of the filed rates
Over 8 years	100% of the filed rates
Minimum premium	$50.00

Others require calculation as a percentage of the normal Loan rates. Check your Insurer's rate filing or call their Underwriting Department to verify the availability of this rate.

1.2.4.5.5 RATES FOR EXTENSIONS / MODIFICATIONS OF MORTGAGES / ASSIGNMENTS OF MORTGAGES

These rates apply where:

(a) the loan currently insured is renewed by an extension or modification agreement and the policy is to be endorsed to provide coverage up to the recording date of such modification,

or

(b) where the assignee of an insured loan presents proof of purchase of the indebtedness and the recording of an assignment, and the policy is endorsed insuring through the date of recording of the assignment.

Check your Insurer's rate filing or call their Underwriting Department to verify the availability of this rate.

1.3 CALCULATION OF REMITTANCE TO INSURER

In order for a title agent to function after securing a license, the title agent must enter into a contractual relationship with one or more Insurers who authorize the licensed agent to act on their behalf. In each case, the Insurer will require that the title agent enter into a contract that may go by the name of an "Issuing Agency Agreement" or other similar name. In that agreement, the Insurer sets forth the portion of the premium that the agent is allowed to retain as his or her commission for the sale of each title policy. There are a variety of terms in the contract, but this section will focus on how to calculate the commission.

In most cases, the agreement provides that the "premium" charged will be split between the Insurer and the title agent. The percentage that an agent retains can be anywhere from 30%-70%, or higher, with the balance being payable to the Insurer when the policy is reported. The tricky part is how you define "premium". Please refer to an earlier section " Components of a Gross Premium" for a discussion of components of the "gross premium" charged to the consumer. In most cases, when calculating what is to be remitted to the Insurer, you ignore the reference to "gross premiums" and only focus on the "risk rate", or that portion that the Insurer earns when its policy is actually issued. The components of the policy premium that relate to "search" or "examination" are not involved in the calculation of Insurer remittance.

The easiest way to determine the "risk rate" for each Insurer is to look at the filed rates for policies the Insurer has published for the counties other than Knox, Davidson, Hamilton, Shelby, (and in some cases Rutherford and Williamson). In these 89 counties, the Insurer has filed rates that only include the premium for the "risk assumption" component of the premium. Once that rate is determined, you can use that as the basis for calculation of the "premium" that will be split between the Insurer and Agent in accordance with the Issuing Agency Agreement.

For example, the following will provide some guidance, but you should verify the approach discussed is identical to the methodology your Insurer expects to be employed.

Remittance Example #1

- Assumption: Policy is for $85,000
- Assumption: County is Blount
- Filed rate for this county is – $6/1000 of coverage
- Agent charges $120 for his search and examination of title
- Agency Contract states Agent shall remit 30% of risk rate premium to Insurer

In this case, reference to the filed rate for all counties (other than one of the specially identified "all inclusive" counties) shows the rate for an Owner's policy is $6 up through the first $100,000. Since the search and exam fees are charged, but retained by the agent for his work, it will not be included in the calculation.

85 x 6 = $510 (total premium to be charged for the risk rate)

In this case, since the $510 is the charge the Insurer has filed to cover its assumption of the risk, you would apply the percentage referenced in the contract to that figure:

$510 x 30% = $153 is due the Insurer.

So in the end, the consumer paid premium is allocated as follows:

Commission earned by the title agent	$357	(70% commission to agent based on RISK rate)
Net remittance paid to the Insurer	$153	(30% remitted to Insurer per contract based on RISK rate)

"Search" and "examination" fees paid directly to agent $120.00 (outside, and not part of, the 'premium')

Remittance Example # 2

- Assumption: Policy is for 85,000
- Assumption: County is Davidson
- Filed rate for this county is – $7.50/1000 of coverage
- Agent normally charges $120 for his search and examination of title in other counties
- Agency Contract states Agent shall remit 30% of risk rate premium to Insurer

In this example, we find that Davidson County is one of the "all inclusive" counties in which the rate filing includes the charges for the "search", "examination" and "assumption of risk". The consumer is charged the following:

85 x 7.50 = $637.50 – The consumer quoted premium.

However, at the time the agent needs to remit the premium due his Insurer, the agent will not utilize this figure to calculate the remittance due. In all counties, regardless of whether it is in an "all inclusive" county or not, the title agent calculates the remittance percentage based on the "risk rate" . Looking at example #1, when we were calculating a remittance in a "risk rate" county, we see that that rate was $6.00 per thousand. So, our remittance calculation would look just the same:

85 x 6 = $510 (total premium to be charged for the risk rate)

And we would use this $510.00 to calculate the net remittance due the Insurer.

$510 x 30% = $153 is due the Insurer.

The balance of the $637.50 is associated with the "search " and "examination" and is retained by the agent since he or she is paid for those components of the risk premium charged to the consumer.

So in the end, the consumer paid premium is allocated as follows:

Consumer paid Premium ……………………………………….$637.50

Commission earned by the title agent	$357	(70% commission to agent based on RISK rate)
Net remittance paid to the Insurer	$153	(30% remitted to Insurer per contract based on RISK rate)
"Search" and "examination" fees to agent	$127.50	(difference between total "all inclusive rate" and "risk rate")

1.4 REMITTANCE TO INSURER

The title agents' responsibilities related to remitting net premiums and policies to their Insurer will be spelled out in the contract they have with each Insurer. While the obligations may vary from Insurer to Insurer, all will require the remittance of the Insurer's share of the premiums for all issued policies on *at least* a monthly basis. Furthermore, most will require that all policies be issued to the Insured as soon as possible, but normally no later than 30-60 days from the date of the real estate closing. You will need to confirm the exact terms of your contractual obligations with each of your Insurers. Some Insurers have <u>very</u> strict rules and failing to comply with remittance policies can result in the termination of your agency contract.

Many Insurers have developed online services that make the remittance of the premiums and associated documentation (schedules, affidavits, and other related forms) a simple process. In other cases, the title agent will be required to submit a written report with copies of all documents requested by the Insurer. Regardless of the Insurer's procedures, the title agent should recognize that a key to his or her continued relationship with an Insurer is remitting and reporting on a regular (at least monthly) basis.

Most Insurers have processing departments that automatically compute statistical data surrounding the remittances received. One of those statistics is a calculation of the amount of time that has elapsed since the recording of the deeds or Deeds of Trust (i.e. policy effective date) associated with each transaction and the time that the policy, and related premium, for that transaction has been remitted. This "lag time" is a critical factor in evaluating the agent's compliance with their obligation for timely reporting. Establishing a procedure for reporting all issued polices every month will ensure your "lag time" will remain in the acceptable timeframe.