Title insurers find strength through consolidation

The companies that verify ownership of real estate are particularly dependent on transaction activity to drive demand for their services. In 2009, deal volume across commercial property types in North America totaled $49.4 billion, down 67% from 2008, according to Real Capital Analytics. While distress has wracked the title insurance sector, strong firms have gobbled up many of their weakened competitors.

This trend toward mergers and acquisitions was evident before the current crisis, including LandAmerica Financial Group’s acquisitions of Transnation Title Insurance and Commonwealth Land Title in 1998, and then Fidelity National Financial’s acquisition of Chicago Title in 2000.

In 2008, LandAmerica filed for Chapter 11 bankruptcy protection and sold its largest underwriting units to Fidelity. Those deals added Lawyers Title and Commonwealth to the fold and made Fidelity the world’s largest title insurer.

Today the major title groups include Fidelity, Stewart Title Guaranty Co., Old Republic Title Insurance Group, and First American Title Insurance Co., which has also made numerous acquisitions of smaller firms in recent years.

“There has been a tremendous amount of consolidation in the industry,” says Bruce Hawley, senior vice president and senior underwriting counsel at the Houston headquarters of Stewart Title.

Stewart Title and its competitors lost a huge chunk of business following the implosion of the commercial mortgage-backed securities (CMBS) market in late 2007. Previously, title insurers were able to sell policies for hundreds of assets at once for a single CMBS portfolio transaction, Hawley says. Now single-property transactions are more typical, slashing demand for new title insurance.

To fill the void, Stewart is offering title insurance in markets around the globe, says Hawley, who heads the company’s multinational title insurance group. Title policies are helping investors in places like Eastern Europe to cement ownership rights to properties that until recently may have been owned by the state.

Relationships established with foreign investors also are helping to land domestic business as those investors begin to take advantage of relative weakness in the dollar and buy U.S. properties.

Another source of business is loan modifications, in which title insurers issue endorsements to existing policies that ensure those agreements are still valid. When a borrower brings in a new equity partner, lenders want assurance that mortgage modifications won’t affect their priority as a first lien holder.

There’s also title work when a mortgage goes into foreclosure. Loan modifications and title research for foreclosures are replacing some of the lost revenue, Hawley says.

And profits are returning. Stewart Title, a subsidiary of Stewart Information Services Corp. (NYSE: STC), reported net income of $31 million in the fourth quarter of 2009 compared with a net loss of $163.6 million a year earlier.

Fidelity National Title Group, part of Fidelity National Financial Inc. (NYSE: FNF), reported pre-tax earnings of $109.6 million in the fourth quarter after reporting a pre-tax loss of $9.7 million in the fourth quarter of 2008.

Hawley believes that the uptick in business in the fourth quarter reflects what will likely be a sustained increase in demand for title insurance. “Based on my operation, I think we turned a corner.”

— Matt Hudgins