

**Ready or Not ...
One Stop Shopping Has Arrived**

Real Estate

confronts

BUNDLED SERVICES

**Stefan Swanepoel,
Anne Murray-Randolph
& Stephen Murray**

Publications in the “Real Estate confronts” series:

Real Estate confronts Reality (1997)

Real Estate confronts Technology (1999)

Real Estate confronts the e-Consumer (2000)

Real Estate confronts the Banks (2002)

Real Estate confronts Profitability (2003)

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Real Estate confronts Bundled Services

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Preface

In the history of the various industries providing products and services to consumers, there is a fairly predictable sequence of events:

- A truly new product or service is offered,
- The product or service adds many extensions, options and/or arrangements in an effort to provide the consumer with a good deal of choice and then,
- The sheer amount of choice becomes inefficient and the consumer looks for (and the industry provides) simplified and in many cases “bundled” standard packages.

This has certainly been true in the automobile industry. Remember when the Japanese decided to “bundle” all the desirable features into all of their cars? Now we are seeing it in something as pedestrian as clothing detergents where the detergent, the fabric softener and the odor remover are bundled together into one product (Febreze), and we believe it is occurring with more frequency in the world of residential real estate.

"Choice" provides the consumer with a sense of control, and control is a fundamental long term trend among consumers that has been growing since Baby Boomers decided they could “have it their way.” The Internet has been a key enabling tool for consumers to acquire information that would allow them to be in control and to make informed choices.

Residential real estate agents will tell you that consumers are already coming to them armed with the exact homes they want to see in a particular neighborhood. In many instances they have figured out what they can afford and may have already received a mortgage commitment. There is no doubt about it, the consumer is gaining control of the home finding process, is beginning to look for ways to control the home selling process and is looking for ways to simplify and bring predictability to the settlement process - all the services they need.

Consumers have already indicated a strong desire for simplifying the transaction by looking to one single source to obtain all of the services they need. But before this can become a reality, the industry has some very entrenched rules, regulations, processes and participants that have to change. To be sure, it is not a matter of whether it will happen – that horse is already out of the barn.

Only time will tell when and how brokers, agents and suppliers will respond.

Stefan, Anne & Stephen

The Authors
October 2005

About the Authors

Stefan J.M. Swanepoel

Stefan is widely recognized as the leading visionary on trends and change in the real estate industry. He has penned 11 books and whitepapers including the 1998 Amazon.com bestseller, *Real Estate confronts Reality* and the latest sequel *Real Estate confronts the Future* (2004). He has received numerous awards including; Businessman of the Year (*Jaycees*), Best Idea in Real Estate (*Great Ideas Conference*), has been ranked as one of the Top 20 Most Influential People in the Real Estate Industry (*Today's REALTOR®*) and was listed one of the Top 15 Technology Trainers in the US (*The Real Estate CyberSpace Society*). His academic accomplishments include a bachelors in science, a masters in business economics, diplomas in arbitration, mergers and acquisitions, real estate, computer science and marketing. Today Stefan serves as:



- CEO of RealtyU, Inc. – The largest network of real estate schools in the United States educating over 305,000 agents annually.
- CEO of iSucceed, Inc. – A leading provider of real estate mentoring/coaching to real estate agents.
- Chairman of BASB, Inc. - A national speaker's bureau focused on the real estate industry.
- Founder of The Real Estate Apprentice Foundation, Inc. - A Non-Profit Corporation providing \$250,000 of grants to new real estate licensees every year.
- Managing Partner of RealSure, Inc. – A management consulting practice and research firm specializing in real estate trends.

Anne Murray-Randolph

Anne is a senior level marketing professional and partner in Murray Consulting. Prior to building a practice in real estate consulting, Anne built 20 years of progressive line management experience in marketing and new product development at Fortune 500 companies including General Foods/Phillip Morris, Sara Lee, Frito Lay/PepsiCo and Citibank. During this time, she developed a proven track record for creating successful new businesses, including three that were over \$100 million in first year sales.



For the last 5 years, Anne has focused on bringing a strong consumer perspective to the real estate industry through research, including: “Room for Improvement: Perspectives of Real Estate Consumers and the

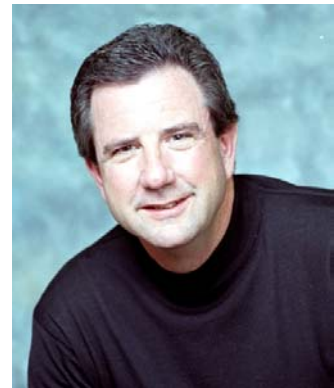
Professionals Who Serve Them” a comprehensive study of consumer attitudes, behaviors and preferences in the residential real estate transaction. “One Stop Shopping” for RESPRO and has co-authored the Weston Edwards & Associates study of *Changes in the Way Houses Will Be Bought And Sold*, with a focus on profitably expanding minority homeownership, gaining a greater share of purchase markets and the impact of the potential HUD packaging proposal published in March of 2004. She is the also the publisher of *lore magazine*, lifestyle publication for the real estate industry focused on the people in the business from a personal standpoint.

Anne has a BS from University of Wisconsin, Madison and an MBA in Finance from the Stern School of Business at New York University.

Stephen H. Murray

Stephen H. Murray is the editor of *REAL Trends* and *lore magazine* the industry's leading publication focused on the leaders of the industry and President of Murray Consulting, Inc. He has over 28 years experience in the residential real estate field.

For the past 18 years as editor of *REAL Trends*, he has played a significant role in developing the *REAL Trends 500*, ranking the nation's largest residential real estate firms and the REAL Trends Gathering of Eagles. In addition, *REAL Trends* formed the REAL Trends Institute, a program that educates rising leaders as to the methods of planning and directing leading realty service firms.



Stephen also manages the activities of four CEO groups, The Vision Group, The Leadership Council, the New Home Marketing Group of America and The Brokers' Council. Through *REAL Trends*, Stephen has played a significant role in several national studies, including “Room for Improvement” (2002); Perspectives on Financial Institutions in the Realty Business” (2003); “One Stop Shopping ”(2003) with RESPRO® and the Realty Alliance; and authored a study on the future, “From Homogeneity to Segmentation” (2004) for the National Association of REALTORS®. Murray Consulting is the leading management consultancy in the residential real estate industry with over 1,700 client assignments since 1987. It is recognized as the leader in merger advisory and valuations in the residential realty services field.

Companies and Websites Referenced in this Whitepaper:

First American Corporation

<http://www.firstam.com> and www.firstam.com/residential

Fidelity Title

www.fntic.com

ABN AMRO

www.abnamro.com and www.mortgage.com

LendingTree

www.lendingtree.com

HUD and RESPA

www.hud.gov/offices/hsg/sfh/res/respa_hm.cfm

AmeriSave

www.amerisave.com

Bank of America

www.bankofamerica.com

GMAC

www.ditech.com

Murray Consulting

www.realtrends.com

Harris Interactive

www.harrisinteractive.com

CFI group

www.cfigroup.com

Long Realty

www.longrealty.com

RealSure, Inc.

www.realsure.com

The Road Taken

SECTION

1

1.1 Introduction

On an average business day 20 to 25 thousand residential real estate purchase or sale transactions take place (6-7 million existing homes and 1-1.5 million new homes every year). During an eight-hour business day that is almost one every second. These are complex real estate transactions involving multiple companies in the industry that provide a wide range of services: brokerage, mortgage, title insurance, legal, escrow, home inspection and warranty, property and casualty insurance, utility, communication and a host of other transactional and post-transactional services. Furthermore, it has been estimated that some 10 million people work in this real estate circle facilitating these services.

However, over the past two decades while consumers have become much more informed via the Internet, the extreme heat and speed of the market, coupled with low inventories and high demand, have been key factors in real estate agents providing less service than they did in the past. Historically agents farmed a specific neighborhood or neighborhoods and were well informed of the prices, homes sold, information about schools, etc. They took the time to talk with consumers about the process, to give them feedback after showings and always went to the closing. Many of them actually had yearly events to “keep in touch” with their clients. But in a hot market everything speeds up and the time allocated to servicing the client's needs gets spent elsewhere. At the same time consumers are looking for ways to simplify the process, make it more efficient and predictable – more like going to one place to do all of your shopping – the Super Wal-Mart effect. But this didn't happen over night.

RealSure has been tracking this trend for the past 8 years and in *Real Estate confronts Reality* (1997) stated that “one of the first real estate processes to be automated will be the marrying of the home purchase and the home financing processes.” In 1999 *Real Estate confronts Technology* warned that “should real estate professionals wish to succeed in the new world of the Internet they will have to focus on creating a consumer-centric model that allows them to take ownership of the entire transaction.” *Real Estate confronts the e-Consumer* (2000) warned that “the real estate transaction is not just the destination of a house purchase but rather the journey of a home ownership experience ... One Stop Shopping is not the brainchild of the real estate industry but a demand of the consumer.”

In 2002, Murray Consulting and Harris Interactive (parent company of the Harris Poll) researched 2,052 recent buyers to determine their interest in One Stop Shopping. When offered the option of a simplified One Stop Shopping process in which all services required for the transaction are provided through one single source, consumers clearly indicated a strong preference for this option. Eighty-two percent (82%) of all buyers would strongly consider using

this type of service, with forty-seven percent (47%) indicating a high degree of willingness to consider this service.

Many industries and services have raced to meet the needs of these "New Millennium" buyers. But, as is so frequently the case, the current system in place is antiquated and fails to provide these emerging buyers what they want. This leaves the service providers within the real estate industry with the challenge of locating and delivering the elusive silver bullet. While the industry is seeing a good deal of consolidation there are a number of issues that have caused more confusion and frustration such as: geographic inconsistencies in both law and practice across the states, wildly different sizes and forms of real estate service offerings, an explosion of mortgage products allowing heretofore unqualified consumers to become homeowners and disparate opinions about how to most effectively serve the customers. It is a little like staying abreast of all the developments in the medical field. A doctor could read 24 hours a day and still not be effectively knowledgeable about everything that is being offered. Concepts like streamlining, integration, One Stop Shopping, e-commerce, "bundling" and "packaging" are all new concepts in an industry that has just been trying to keep pace with an unprecedented level of demand.

Before delving into what the consumer wants and what is being done to provide it, let's quickly detail a few key terms used in this whitepaper.

1.2 Definitions

The terms "bundling," "packaging," "integrated services" and One Stop Shopping have all been used to explain a trend in the residential real estate industry: the assembling of a variety of services required for closing a home purchase transaction. No wonder there has been so much confusion when terms are not used consistently, especially when there is as much activity and innovation as currently exists in the industry. For the purposes of this whitepaper we have standardized the definitions of the following important terms.

1.2.1 Bundling

Bundling is accomplished when a company can internally produce and provide at a set fee many of the services that are required for the closing. A bundle may often provide a better level of service and enhanced functionality because the provider can integrate related processes and technologies (most GM parts don't work as well in Ford vehicles). Title companies are examples of firms that have acquired multiple vendors in order to create bundles of in-house services provided for a flat fee. This bundle can then be offered to lenders at a single cost, thus allowing the lender to offer it to the consumer along with their mortgage rate. Having in-house services also provides a greater ability to reduce the total cost of delivering these services since marketing and operations can be streamlined.

1.2.2 Packaging

Packaging results when a company assembles or aggregates the services of a variety of external vendors, which they then put together in a *package* for closing at a fixed price. It is common for third-party companies to incorporate the bundles of in-house services or third-party *packages* into their own package of loan and settlement costs.

1.2.3 One Stop Shopping

One Stop Shopping is the consumers' desire to be able to access or acquire a large number of services from one source. They also want to clearly understand what is contained in these bundles or packages and be able to compare or shop the prices of these services in order to make educated decisions affecting the end result - *a successful and cost effective closing*. One Stop Shopping does NOT imply that every service has to come from a single vendor; rather it affords the consumer the option to go to one place to get these services.

Now let's move ahead and examine what has been happening in the market.

1.3 What Is One Stop Shopping?

To more fully understand the impact and the complexities of One-Stop Shopping in the real estate industry, we first need to examine the primary pieces of the process. The purchase transaction, which requires a mortgage, settlement services, insurance acquisition, change of address and utilities as well as many other services, breaks down into four basic components:

The Sale
The Mortgage
The Settlement or Closing
The Post Closing/Moving Activities

The Mortgage generally includes the type of loan (Conforming, Non Conforming, Fixed Rate, Interest Only, Adjustable Rate Mortgage or ARM), the rate described as a percentage to be paid on the balance of the loan during the period and the terms – origination points, etc.

The Settlement or Closing Process commonly involves investigating the title, appraising the home, credit evaluation, obtaining flood determinations and escrow services. Among the more important items in settlement are:

- **Title:** This is the process of investigating the title of the property to assure that the ownership of the title to the home is clean and can be passed to the new buyers and guaranteed to the lender. Title rates are promulgated at the state level in many states, and are usually the largest single item of the total settlement cost.
- **Appraisal:** The appraisal process is performed by appraisers with widely varying levels of skill and experience. Most states have professional designations but many do not license or regulate appraisers. While new services are trying to automate appraisals based on extensive comparative data, only about fifty percent (50%) of homes can actually be effectively appraised this way.
- **Credit:** The credit worthiness of the buyer is evaluated by one or more outside credit bureaus.

- **Flood Determination:** Many places are in flood prone areas, requiring the homeowner to acquire flood insurance, which is not offered by insurance companies - only by the Federal Government.
- **Escrow Services:** Escrow is utilized in some states but not others. It is simply a deposit of funds and a deed or other instrument by one party for the delivery to another party upon completion of a particular condition or event. Escrow provides assurance that neither funds nor property changes hands until all of the instructions and/or requirements have been followed and completed.
- **Attorneys Fees:** In states without escrow, attorneys generally administer the closing of the transaction and act as the Escrow agent. This is especially true in many eastern states.
- **Other Fees & Charges:** There are many fees and charges in the closing process including filing fees, document preparation fees, recording expenses, notary fees and express mail charges to name some of the more common. Additional charges for things such as prorated interest, insurance premiums and property taxes called prepaids are also typical.

RESPA rules require that a purchaser is to receive a Good Faith Estimate (GFE) of the Closing or Settlement costs within a few days of applying for the mortgage. A major concern for most mortgage companies is that these costs are at best an estimate and recently, consumers have been showing up at closing and finding out that the actual costs are much higher than the GFE they have been relying upon. At that point the only option that they have is not closing the loan(s) - potentially losing the mortgage commitment. In addition, they don't know who to talk with about the reason for the increased cost. Certainly, the issue of many required services where the consumer has little if any knowledge is cause for stress and a feeling of being out of control for the consumer.

Michigan-based consultants, CFI Group USA LLC, conducted two different research studies for Mortgage Banking covering mortgage customers nationwide. Among the aspects of the mortgage process that were least satisfying for the consumer were a feeling of being out of control of the process, and not having the ability to really compare rates, fees and total costs across multiple lenders. Consumers rate their ability to control the process at only sixty-three percent (63%). Borrowers have very little sense that they have the ability and means to shop rates and settlement costs effectively. This fact can be seen in the consumer scores for the “research to find a lender” component of the lending process hitting sixty-four percent (64%) versus their more positive scores on the lender’s representative at eighty-one percent (81%). For first time homebuyers the score is even lower, with these buyers scoring their ability to compare rates and settlement costs a very low forty-nine percent (49%). These are the younger and immigrant buyers who will comprise a good portion of homebuyers in the future.

The original RESPA regulations were intended to standardize the way that the various fees and costs relating to the loan and closing were communicated to consumers. However, while consumers have a fairly good understanding of mortgage rates and points for origination, they have a very poor understanding of the various services and fees that are required to complete a loan closing. To further complicate the issue, these service requirements vary by state and can

include title insurance, credit reports, inspections and appraisals, as well a host of other fees for services that defy simple explanation: flood determination, tax service, waive escrow fee, wire fees and closing fees. The HUD-1 Settlement Statement, developed by The US Department of Housing and Urban Development, has almost 60 line items for the consumer to understand that directly involve representing services involving the process of selecting vendors to perform the necessary services required to close their loan.

At the end of the day, a GFE is provided to a buyer only after they have selected a lender and specific loan. As a result, purchasers cannot effectively compare fees and charges, and therefore typically rely on their real estate agent to make a recommendation.

With this confusion and the effective lack of accessible choice and comparison, consumers have become truly exasperated with relying on the accuracy of a Good Faith Estimate of all the closing costs. They arrive at the closing where RESPA requires that the true actual costs be reflected in the HUD-1 and find out that there is sometimes a variance of hundreds or thousands of dollars between what they expected to pay at closing and what they end up paying.

Consumers have complained visibly and vocally to HUD and the outcome has been an effort by HUD to: 1) Simplify what the consumer needs to understand, 2) Allow the consumer to more easily compare across offers, and 3) Drive down the cost of buying a home. We will look at RESPA reform a bit later in Section 3.

In looking at One Stop Shopping in other industries such as retail, we notice that in many cities, individual service providers like grocery stores, liquor stores, card stores, pharmacies and more recently even appliance and tire stores are gradually being incorporated into the large retail chains (i.e. Wal-Mart). Now these large retailers are offering these products and services that were once only available in separate shops - *in one mega store*.

If we transfer that same all-in-one philosophy to home purchases we will most likely end up by defining the complete home solution as:

An off and online service integrating all sales and settlement services together in order to effectively and efficiently facilitate the entire home purchase transaction and manage the process before, during and after the closing.

1.4 Recent Developments

In the industry today there is no consistency or standardization in the creation of packages or bundles. On the other hand, there appears to be a movement toward a fixed fee for most of the settlement services.

Leading title companies such as First American and Fidelity Title have been at the forefront of offering bundled settlement services to lenders. Lenders, like ABN AMRO Mortgage have put together packages of outside settlement services in order to guarantee consumers a fixed rate for both the loan and settlement services.

LendingTree Settlement Service (a division of LendingTree) created a joint venture with Greenlink LLC (a division of Wachovia) to provide settlement services that enable both lenders and mortgage brokers to offer consumers competitive bundles of services such as title insurance, appraisal, flood insurance and closing. Meanwhile, GMAC's Ditech is promoting its popular fixed fee settlement service, which covers all the typical lender-related closing expenses such as origination, appraisal, credit reports, title insurance, notary fees, escrow fees and document preparation.

To better understand how we arrived at this point and how these services are provided we need to step back and review the history of the process. To do this we have chosen several of the industry's key forerunners that have responded to the consumers' desires and needs with the first attempts at bundling and packaging a One Stop Shop.

The Forerunners

SECTION

2

2.1 First American Corporation

First American is a leading organization in the “bundling” of settlement services and offers virtually all of the services required to settle a mortgage. First American has brought all the services in-house, which makes bundling easier. When an organization is “packaging” outside services it requires that the organization be able to contact, price, order and deliver the service without a hitch. From a technology viewpoint this can require difficult and costly system to system integrations. Vendors outside an organization need to be able to receive and respond to requests for real time quotes and product delivery instantaneously. Rather than try to “assemble” or package these outside resources, First American has decided to bring all of the necessary services in house and tie them together with common technology.



According to Stephen C. Roney, President and Chief Executive Officer of First American Residential Group, “This strategy allows us to more effectively control design, quality and costs to better meet the demands of our clients and consumers.” This is a major difference in their operation compared to five years ago as First American today “owns” many national companies offering the services required in settlement of a mortgage. As a result, it would appear that the era of proprietary software and technology is giving way to single point of ownership and standardized web services-based order management and delivery systems.

First American Centralized Services delivers one of the best individual settlement services (a combination of services into a single synchronized product line) for one price. The core set of bundles is available for multiple channels such as Home Equity, Refinance, Affordable Housing, Piggybacks, etc. and can even be customized to meet lender and geographically specific regulatory requirements. There are certain eligibility requirements for specific bundles such as the loan and property must be under \$1 million.

There are numerous obvious advantages to the one bundle approach such as one fee, one technology, one call center and no invoices. Other advantages include:

- Process efficiencies.
- Ease of use and understanding by consumer for a more customer-friendly closing.
- Reduced pricing in many instances, helping to gain market share for the lender.

“We believe that consumer demand for simplicity, transparency and value will continue to grow and that bundling will be an increasingly important strategy for meeting these standards,” added Leonard Troutner, Executive VP of First American Residential Group. “We have already developed an extensive menu of bundles to accommodate a multitude of lender and different state requirements. We are very active in the refinance market, and both interest levels and utilization rates are increasing in the purchase market.” The refinance market, he explained, is much easier than the purchase market, largely because of the products included in the bundle are typically controlled by the lender. Conversely, in a purchase transaction some or all of the products are determined as part of the negotiations in the purchase transaction.

“The industry is not there yet, particularly for purchase mortgages but we see the bundling of services as a logical solution to increasing consumer demand for process simplification and cost reduction. We have a number of people within our product companies supported by appropriate corporate leadership and extensive technology working together to meet this growing demand.”

Last year First American’s Lender’s Advantage division introduced OneRate, a title insurance rate plan for California to address the refinance market. In this program the consumers receive a single rate that includes all the necessary title and escrow services – with approximately a thirty percent (30%) discount. Lender’s Advantage is the division that is primarily focused on streamlining title and settlement services for their lender customers; pre-pays and other miscellaneous government fees are not included.

The next step for First American is to further expand these offerings into the purchase market and to begin developing online closings and electronic signatures. Jim Dufficy, Senior Executive Director of First American Lender’s Advantage, said recently in Mortgage Banking Magazine: “Today, it’s a thicket of papers for consumers and it’s not their need – the consumer is absolutely not the one clamoring to walk away from a closing with a thick pack of papers. If the closing could happen in a simple way through a paperless system that provided them with just the basic documents they absolutely needed, I think consumers would love it.”

2.2 Fidelity National Financial

Fidelity National Financial, another leader in bundling, is doing many things to simplify and speed up the closing process. Its purchase of Lender’s Services Inc. (LSI) in 2003 created one of the largest appraisal and title insurance firms in the industry according to Ron Frazier, president of LSI. The company has focused on centrally processed home equity and refinance transactions for many top lenders, and recently started offering a similar service for original purchase transactions. LSI is focused on the functionality and data that allows the firm to close deals in real time, online - assisting lenders in handling the whole transaction much faster.

Fidelity National Financial has taken the idea of bundling to include not only all of the services needed for the transaction, but also the systems they are creating for everything from loan origination all the way to managing the loan portfolio, foreclosures and bankruptcies. Fidelity has developed software and systems that streamline virtually every aspect of the transaction. In our interview with Eric Swenson, President of the Office of the Enterprise, he repeatedly used the concept of *streamlining all aspects of the transaction*, having superb

information and providing this streamlining of the transaction from end-to-end as the key differentiator for Fidelity. For one lender, Fidelity provided the software and services to allow the lender to refinance their own loan portfolio in order to retain the portfolio – all accomplished outside of the normal channels. Instead of going through the lender's retail or broker channels, which would have been very expensive, with Fidelity systems and bundled closing services the lender was able to refinance the loan through the servicing department and pay for all the closing costs through the savings in commissions.

Swenson's vision for bundling is simple, and he feels that the technology is available today to do most refinancing and some purchase mortgages - *instant loans*. With the increasing sophistication and quality of the information about credit, title quality, flood, automated appraisal and underwriting, in the near future a



person desiring a loan will be able to go from entering the information into an origination system to having documents ready to sign before they leave the office. Even better, according to Al Verkuylen, Senior Vice President of Strategy and Execution for LSI, is the web-based closing. "With web-based closing borrowers can review the documents in advance of their scheduled appointment. In an on-line signing room the lender can be present along with the consumer and our company, and in an attorney state, the attorney from the state in which the loan borrower resides. They can meet during the Internet session and on a conference call. They can review the HUD-1 and the borrower can agree to the terms, the loan amount, etc. Then the loan is closed with an electronic mark."

One of the things that actually impede the second part of the consumers' desire - to actually lower costs in the transaction in addition to making it simple and reliable - is based on regulation in states where the title insurance rates are promulgated. In these circumstances, even if the enhanced quality and availability of information will allow for risk reduction and hence lower costs, lower title insurance premiums cannot be obtained. Swenson feels that these regulations are working against the goals of innovation to reduce the costs associated with buying a home and impedes enterprise bundled rates.

2.3 ABN AMRO Mortgage

ABN AMRO was one of the first lenders to attempt to "package" vendor services under their OneFee program. ABN AMRO started a pilot program in early 2001 with their web site Mortgage.com. They began offering their OneFee program to consumers over Mortgage.com for their prime spectrum, the refinance market. In this program the consumer is provided with a variety of rate amounts and one fee closing costs. In addition to significantly increased volume on the site, it also increased conversion, employee productivity and customer satisfaction. Under this program there are many options. The consumer can get both a loan and a settlement package with a guaranteed rate – that is when the rate and the settlement service package are locked so the consumer knows exactly what the rate and closing costs will be (excluding prepaids). Included in the Guaranteed OneFee Mortgage are origination fees, discount points, appraisal fee, lender's title insurance, attorney's fee if required, survey, floor certification, credit reports, tax service fees, underwriting and processing fees and recording fees. Prepaid interest, private

mortgage insurance, monies to fund escrow accounts and mortgage, property and transfer taxes are not included.

The company has “hung its entire value proposition on all of its loan products,” said Garth Graham, Senior Vice President of e-Commerce and Customer Relationship Management. “These products include prime loans of any size, either original purchase or refinance. They also began offering it (OneFee Program) through their retail channels with LaSalle Bank in Illinois and Standard Federal Bank in Michigan. ABN AMRO actually acquires a lot of these services from organizations like First American that can provide excellent bundles of services required to close the loan.”

Research conducted by Optimization Group in Royal Oak, Michigan on the behalf of ABN AMRO suggested that consumers loved the “ease of use,” personal contact and OneFee features of the offer. Sixty percent (60%) percent of Mortgage.com’s customers had



a loan originated or services by ABN AMRO and ninety percent (90%) percent would recommend using Mortgage.com to family or friends. The OneFee program combines all the lender and third-party settlement costs into a single dollar amount. The benefit to the consumer is simplicity and reliable mortgage and closing costs. The benefit to the mortgage broker is that the program was devised so that the broker could enter their own revenue or margin requirements on the loan and be immediately provided with a range of mortgage rates and OneFee options for the borrower with their compensation built in. Since the company guarantees the rate and settlement service costs, there is no danger to either the consumer or to the broker’s margins through changes in the actual cost of the services just prior to closing.

The uniqueness of ABN AMRO’s approach is twofold: 1) The company does not see OneFee as a money maker as the company believes the profit is in the loan rather than the closing services and 2) they believe that managing the risks of the closing services is as important as managing the loan. To that end they have invested heavily in technology that allows them to create a real time guaranteed price down to the zip code level.

2.4 Lending Tree

LendingTree allows visitors to their website to input their desired loans and within a certain period of time receive at least four quotes from the wide range of vendors associated with the company. Their unusual approach to the consumer was designed to help them find both a loan and a real estate agent. While LendingTree could control the quality of the lenders to whom they referred the customers coming to their website, they had less luck controlling the closing process once the loan was placed – which of course reflected badly on LendingTree as well as the lender. The companies answer was to begin offering settlement services as well as the loan. In 2004, LendingTree created a joint venture called LendingTree Settlement Services (LTSS) with GreenLink, a division of Wachovia Corporation of Charlotte, North Carolina. LTSS offers appraisal, title insurance, flood insurance, closing services and is currently licensed in 36 states.

David Anderson, General Manager of LendingTree’s joint venture with GreenLink, said recently, “We didn’t feel as though we were #1 the loop – once we locked in our loan, things

went off into a black hole. We got to the closing table only to say that the documentation wasn't right and the customer wasn't happy."

LTSS now offers settlement packages to all of its lenders and approximately 50 lenders are currently using them. LendingTree, like other bundlers/packagegers, is experimenting with electronic signatures to further simplify the transaction. It is beginning to offer this package to all of their real estate specialists, the lenders of the LendingTree exchange and others - whether part of LendingTree or not. Castle Point Mortgage, of Elkridge, Maryland and GoodMortgage.com in Charlotte, North Carolina are two good examples.



2.5 Long Realty

While firms like First American and Fidelity National are building "bundles" to offer to lenders who can then package the bundles with mortgage offerings to their mortgage brokers, loan officers and directly to consumers others are focused on the transaction itself. For example, Long Realty is using the concept of One Stop Shopping combined with a guaranteed Good Faith Estimate to provide significantly enhanced service to both its customers and its agents. Rather than focusing on reducing costs down for consumers, Long Realty is focusing on a strong value proposition: making the transaction completely predictable and painless for both its customers and its agents.

For its agents, it is all about surety in the transaction. In the past, agents could be placed in the embarrassing and uncomfortable position of having a home not appraise, a mortgage not approved or having to tell a customer at closing that they have to buy flood insurance they didn't originally need, increasing the HUD-1 costs at closing. Now the agents have been provided with a service option that alleviates all these problems. If the agent refers the customer to Long Title, the closing costs are guaranteed, and if the costs are higher at closing, Long Title covers those costs. If for some reason the closing does not occur on time, Long Title pays the consumer compensation for having been negatively impacted. The customer even gets a preliminary title delivered to them in 48 hours after application.

If the customer uses Long Mortgage, Long immediately does an upfront appraisal so that the potential buyer immediately knows the value of the home. They will also know if the home will not appraise and, in the hot market of Tucson with home prices appreciating readily, this is a real possibility. They also do a pre-approval of the mortgage so the buyers know what they can finance and obtain an upfront flood certification. If the buyer does not end up purchasing the home, Long Realty pays the upfront costs.



Clearly for the consumers, all of the upfront service combined with guaranteed closing costs addresses the key stress causing issues: the home appraising, the pre-approval of the mortgage and a clear and final understanding of what it will cost to close the home - *transparency, predictability, stress-free processing.*

Why not put together a packaged program with a discount to attract consumers? “Once you discount,” said Rosey Koberlein, President and CEO of Long Realty, “there is no way up. You become a commodity. We are interested in providing a clear value-added experience for both our agents and customers so both feel good at the end of the transaction. We have been doing focus group research with our customers and we feel that most consumers really want to feel good at the end of the transaction and are much less concerned with what the total cost is as long as it is what they expected from the Good Faith Estimate. They don’t like surprises.”

Koberlein is proud to share her results. After one year working with their joint venture partners, Title Security Agency and First Magnus, they achieved a sixty-five percent (65%) capture rate in title, thirty-six percent (36%) capture rate in mortgage and 18% to 20% in Homeowners insurance. These rates are calculated on buyers transactions after removing new homes purchases and case purchases; twenty-five percent (25%) of the market in Tucson. How many times has Long Realty had to pay out on higher closing costs, or for negatively impacting a customer? Less than a small fraction of one percent (1%) – an infinitesimal amount. Best of all, she suggests is that the agents really understand the value that this service level delivers to them – *avoidance of bad situations*.

"The key," says Koberlein, "is in development of a win/win partnership where your success and your partners success are completely tied together. We consider each other our best heroes. When a joint venture is developed where one side of the partnership thinks that they are going to get theirs without regard to the aspirations and compensation of the other side, the venture always fails.”

2.6 Other Interesting Examples

Another illustration is the “roll down” offered by GMAC’s Ditech division. In this offering the lender actually pays all the non-recurring settlement service costs and the buyer chooses from one or more interest rate “increases,” typically from one-eighth to three eighths of a percentage point over the lender’s regular rate. Over time this increase not only pays for the settlement costs but also ensures that the buyers know exactly what they are going to spend both at closing and afterward.

Bank of America has a package called “Mortgage Rewards” that includes everything but title, which is only available to their current customers. Other lenders do not charge the customer a flat fee, but they buy packages or bundles of services at a discount and then pass the savings along to their customers. Amerisave, for instance, purchases bundles of services at a discount from First American. “Instead of selling us four products at \$20 a piece for \$80, they are selling us one bundled product for \$70. RESPA requires that lenders pass on only the exact costs. This saves the customer \$10 because of the bundled approach,” said Dave Herpers, Amerisave’s Chief Marketing Officer.

So where has all of this initial planning and implementation of various methods of dealing with the transactional process brought us? What is the status of the process today and where are we headed in the future?

3.1 Adoption

As late as December 2004, few lenders had adopted a bundled service approach. There are several reasons for this slow adoption. First, although beginning to shift, the real estate agent is still a major force in the real estate transaction. The real estate agent (in high percentages) continues to drive the selection of mortgage, title and other services for their many customers. They have established comfortable relationships with vendors and they want to be able to ensure they can “strangle the loan officer” when the process breaks down. Agents want to control their own destiny and the closing of a transaction is no different than getting the listing and executing the contract - *established patterns and processes are hard to change*. This is further complicated because consumers generally trust agents to handle the whole home buying process for them.

In a recent survey by Weston Edwards & Associates, consumers indicated that they trusted agents more than anyone to handle the entire process:

Real Estate Agents	49%
Mortgage Companies	15%
Builders	11%
Real Estate Brokerages, Trust Companies, Title Insurers & Escrow Companies	<10%

Consumers generally do not know which title, escrow or inspection companies to use, so they rely on their real estate agent to guide them. The Edwards study indicated that:

- 72% of the people who used an agent got a recommendation for a mortgage company.
- 72% of those took the agent’s recommendation.
- 44% of those were lenders who were affiliated with the realty firm or builder.

This suggests that an agent is able to direct almost fifty-two percent (52%) of all home mortgage placements, and that twenty-three (23%) are with the realty firm or builder with which they were dealing with. Even for other settlement services there is a very strong influence from the agent. Over fifty percent (50%) of buyers who got recommendations from a real estate agent, realty firm or builder got recommendations for other settlement services, including:

- 70% on escrow and closing services
- 67% on title insurance
- 64% on home warranty
- 57% percent on home inspections

The second major reason is the inconsistency in regulations and conventions. The requirements for closing include a myriad of rules and regulations not only across state lines but also across county boundaries. In some places closings are done in an attorney's office and in other places they are done at the escrow or title company. In some places sellers pay for the title insurance for the buyer while in others the buyers pay for it. This makes creating bundles of services extremely difficult (particularly for purchase mortgages) and requires development of technology and systems that can do it effectively.

The final reason is simply industry inertia. Most industry participants want to avoid being forced to bundle by RESPA reform, some purely and simply feel that they will be disadvantaged under a bundling or packaging scheme while others are just uncomfortable with change ... *any change, not just bundling*. For real estate agents it represents a change in the standard process whereby the customer is referred to a mortgage lender to get pre-approved and all the other required services wait until the deal is done. For mortgage brokers, the *perception* that they have to alter their process or not use vendors in their own community results in a lower rate of acceptance of a single fee program. Even where technology has been developed that allows brokers to use their own local vendors, many still remain reluctant.

3.2 HUD and RESPA Reform

As we discussed in Section 1, RESPA requires lenders to itemize all of the various services that they perform or have performed for them; from the credit report to the appraisal and title insurance. The Good Faith Estimate that is delivered to the consumer several days after the loan is requested is designed to give the customer exactly that – a good faith estimate of what the costs will be to close the loan. The HUD-1, typically delivered much closer to closing when all of the services have actually been performed, represents the actual costs. So what's the solution?

To no one's surprise, Consumers made their concerns known in the right places and HUD decided to look at ways of standardizing the manner in which services might be offered to assure consumers of the transparency and reliability of the closing costs they desired. HUD believed that the answer would be the creation of a package of services with one guaranteed cost versus the existing laundry list of services and prices, which made it difficult for consumers to compare across multiple offerings. There was significant wrangling over whether there would be one package or two packages, as well as discussion with regard to fairness issues relating to mortgage brokers.

The government withdrew the reform proposal in 2004 in response to negative input from virtually all of the parties in the industry: lenders, mortgage brokers, title companies and others. But interestingly, the fear that HUD would actually institute these “reforms” spurred many companies to begin to develop the necessary compliance capabilities and products in advance of the reform passage.

The White House and HUD have made two things clear this year: 1) There will be some reform in the mortgage process for consumers; and 2) They are willing to ask all the parties to the table to attempt to work through the issues to achieve acceptable reform. To that end they have been holding roundtable discussions with a variety of the concerned parties – lenders, title companies, mortgage brokers and both small and large businesses.

Two approaches seem to be developing: 1) A binding Good Faith Estimate (GFE) with some tolerances, which breaks the GFE into 3 to 4 categories similar to those developed in the original proposal to ease the comparison by consumers across GFE's; and 2) A guaranteed price (two prices) – one for the rate and one for the settlement services. Early reports from industry roundtables suggest that most industry participants would like to avoid major reform, but for varying reasons. One of the most significant issues is whether there will be exemptions to Section 8.

Section 8 has two basic provisions: 1) Section 8A, which prohibits referral fees and 2) Section 8B, which disallows unearned fees. Unearned fees include any charge for which the entity charging the fees cannot demonstrate what services they have performed to “earn” the fee. Thus, according to RESPA, a real estate broker cannot charge a transaction fee unless the broker outlines what services they have performed to “earn” the fee. This has not been supported in court cases. The courts disagree with HUD and say that as long as the fee is disclosed that the brokers can charge that fee.

Lenders are suggesting that if they have to guarantee a package they need a Section 8 exemption to allow them to use an average cost for things such as overnight delivery and other fees rather than the actual cost, because they will not be able to know precisely what the actual fee is until the loan closes, or they will have to absorb the difference. Larger lenders are also looking for an exemption that would allow them to obtain/provide volume discounts, but smaller lenders and other small businesses say that this would disadvantage them in favor of the larger businesses. The general consensus is that the solution should be a type of binding GFE with some clustering of fees to provide greater simplicity for the customer, combined with a few tolerances (the actual cost could vary by some percentage at closing) and a right to cure major issues after the closing.

A third sticking point is whether the Yield Spread Premium (YSP) should be disclosed. The YSP premium is an additional way that a mortgage broker is compensated for making the loan. YSPs are points paid by lenders to brokers for loans carrying interest rates above a par rate - a rate at zero points. Conversely, on rates below the par rate, lenders charge the points to the borrower. A number of things influence what the premium will be including the loan rate and what the lender is willing to pay for better loans or a particular type of loan. The programs that are currently being developed and provided to lenders by firms like First American, Fidelity and others such as Stewart Title and Land America, allow the lender to provide its customers with a simplified “package” for loan closing.

The consumer gets a loan rate and a one-line-item fee for all of the closing services. One program provides the loan rate and closing costs line items in real time to the consumer allowing them to compare across other lenders providing similar services. This option would replace the extensive and incomprehensible list of closing fees and services represented by the Good Faith Estimate and HUD-1.

As the companies that bundle the closing services guarantee their rates, the only thing a consumer will need to worry about is the loan rate, which can be locked in before the closing. Hence – clarity, simplicity and reliability for the consumer. As has been explained before, these closing costs also include prepaids, which are much easier for the consumer to understand.

Depending on the day of closing they will need to escrow for taxes and prepay some of the interest and principle until the first loan payment.

As an analogy, the borrower only needs to think about the simplicity of a HELOC loan (Home Equity Line of Credit) or second mortgage, which in most cases the closing fees are absorbed by the lender. These closings are simple, fast and have been an important component in the refinancing boom. Interestingly, *lenders of home equity loans have received a limited exemption from Section 8 of RESPSA rules allowing them not to itemize all of the fees, which provides for stark simplicity for the borrower.* It is interesting to note that this happens with loans that are inherently riskier and yet we have not seen a significant increase in defaults to date.

Whether HUD determines to separate the various fees on the Good Faith Estimate and the HUD-1 into fewer “groups” or whether they allow for true “packaging” where a lender puts together a loan rate with a one fee package of settlement services, the consumer will have an easier time being able to compare across loan offers more easily. The guarantee feature of a locked in loan rate and a guaranteed package of closing costs will prevent much of the “slip” between the GFE and the HUD-1. In addition, it will eliminate the worst of circumstances: *the consumer is at the closing, the undecipherable fees are higher, the company that offered the service is not there so there is no opportunity for negotiation and the consumer feels duped.*

3.3 The Future

With respect to the real estate transaction, where bundling starts and where it ends, whether it involves aggregated packaging or in-house services is far from determined. The process has always involved the six basic stages making up the “Home Ownership Life Cycle” and the inherent costs, fees, time delays and confusion they present for the buyer:

1. Buying
2. Financing
3. Closing
4. Moving
5. Living
6. Selling

Currently, as we have examined in this whitepaper, the race is focused on stages 2 and 3, where the large Title Insurance and Mortgage companies are making significant progress. There were many lessons learned during the “dotcom” boom and perhaps even more after its crash. The early visionaries saw the tremendous potential of bringing together extensive suites of products and services to meet the consumer's needs before, during and after the transaction. Unfortunately the early technology was legacy laden and bringing all of the services together into one stable environment proved just too much for the industry. The fall of the dotcom era cost the industry a great deal of momentum in this arena but, as we noted in Section 3, some of the committed players continued to follow the vision and picked up the pieces.

Now the industry is on the verge of seeing the One Stop Shop obtain its second wind in the area of transaction management. With viable software in hand we are drawing nearer to a "financial" solution - the equitable and cost effective provision of the necessary transactional

services in an easily understood and acceptable format for the consumer - taking us straight to bundled services.

Individual real estate companies are already utilizing the bundled services approach through the offering of multiple ancillary services. As noted earlier, concierge services such as those offered by Coldwell Banker have a direct impact on centralizing the overall service package for the consumer. The intent and purpose is exactly the same as was defined for the Mortgage, Title and Insurance companies in this whitepaper.

There are a multitude of services that touch the transaction from home inspection to home warranty to termite clearance ... and everything in between. In the early days of the dot com entry into the real estate industry there were a number of companies that attempted to bring these ancillary services under a single transaction management system. They were well on their way when the bubble burst but couldn't hold on. The major players like First American and Fidelity have, by pursuing the mortgage/insurance/title transaction platform, given the real estate industry another shot at bundling the other services.

The real estate company of today, somewhat like the mortgage company we depicted earlier, can utilize the platforms for the major pieces of the transaction and bring in all the other pieces in a similar bundled manner. Remember that the number one thing consumers want is to be able to find the services they want in a single repository, with an efficient delivery platform and a fixed cost.

To address this need (opportunity) the real estate company of today can, like the Title Company, bring the ancillary services in-house and bundle them or obtain the packages from third-party providers. Either way, the goal is the same - *once the customers have entered the process ... meet their every need.* There are real estate companies out there today that are doing just that, and with the assistance of the Title Companies, the major pieces are now easy to obtain.

Will everyone from all sectors of the industry buy into the system? Is the playing field level in all aspects? Can the little guy survive? The answer to all three questions is probably no. We can't forget the reality that a capitalist market does not guarantee a level playing field. Furthermore even assuming a requirement for a level playing field gets in the way of efficiency. No one has said that the market guarantees a place for small mom and pop hardware stores, and in fact, many have been eliminated by the buying and delivery power of Wal-Mart. Whether we like them or not, they provide a price advantage that is desirable to many people.

If the real estate industry is truly dedicated to providing customers what they want, when they want it, then the service has to be at the individual brokerage/agent level. There are real estate companies, both large and small, that like the major title companies are already finding ways to "bundle" or "package" supporting services. They are partnering with the title companies to ensure the most cost effective and efficient closing for their customers. The playing field may not appear to be level but the individual agent should never forget the influential role he or she plays in the process. Remember the most trusted participant in the transaction is the real estate agent for forty-nine (49%) of the consumers and that seventy-two (72%) of the consumers took the agent's recommendation. That fact has not been lost on lenders, title companies, insurance companies and the other companies providing all the necessary transactional services. At the end of the day it behooves all of the parties to work in concert to provide the customer. The

industries response to the wants and needs of the market's primary driver - the consumer - will determine just how this process ends up. But until we really allow the market to act freely and unfettered by unnecessary regulation, the true potential for what Eric Swenson described *as the one stop, one time mortgage origination and closing* will be limited. The same can be said for all of the other transactional services.

Even though the industry adoption rate of bundled services has been slow, in part due to HUD and RESPA as they relate to the mortgage and title pieces, it remains evident that bundling is a need and want of the consumer. It is undeniable that the Internet has birthed a new savvy consumer. A consumer that requires, even demands, extensive information and bundled services. Report after report echoes the same desires:

- Convenience
- Simplification
- Cost Savings
- Accountability.

So the question is not whether to bundle or not, but rather what and how to bundle services and provide them at a fair price. Today it is the transaction - tomorrow we will finally see the entire lifecycle covered from beginning to end with cost effective, easily understood electronically driven and delivered services. With the automation of the mortgage and its related closing services as a starting point, the pressure in the months and years to come is on participants in the real estate industry to re-engineer the traditional existing business paradigms in order to create a more:

Consumer-Centric Service Company
Completely Integrated One Stop Shopping Experience

***7% of the Agents Conduct 93% of the Business.
What is Your Plan?***

Coming December 2005
A New Whitepaper Titled:

Real Estate confronts Goal Setting vs. Business Planning

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