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Real Estate Settlement Pricing: A Theoretical Framework

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Abstract

This paper examines the pricing of real estate settlement services. Prices charged by real estate brokers, title insurers, private mortgage companies and other settlement service providers have been a public policy issue for a decade. The Real Estate Settlement Procedures Act of 1974 did little to alleviate public concerns or change pricing practices.

The paper provides both a conceptual framework and some observations on how prices for settlement services are determined. It concludes that the demand has little to do with the services themselves, but rather depends on the demand for housing. This creates an environment for unnecessary services to be performed and for prices to be far in excess of cost.

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