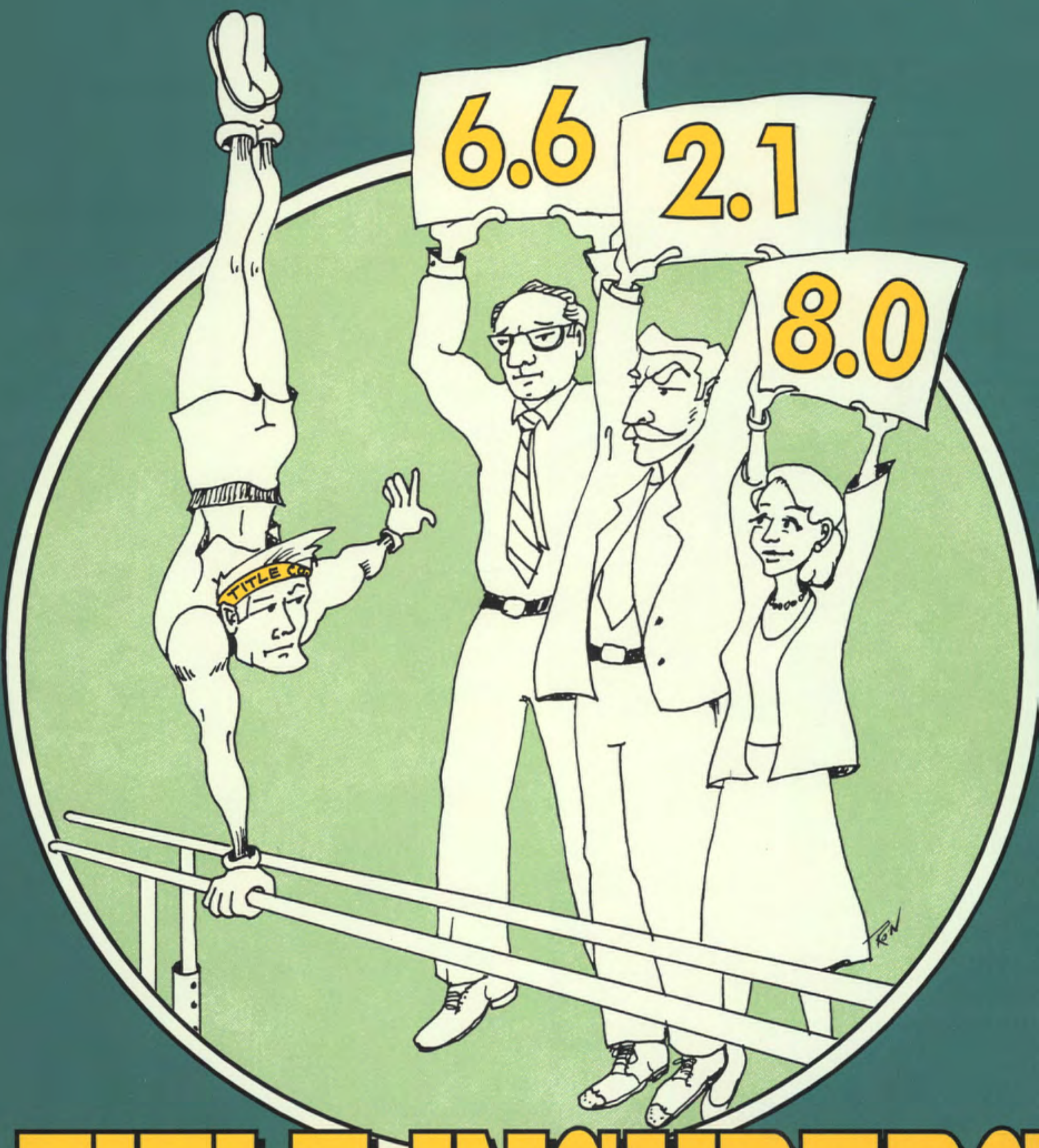
TITLE *News*

MARCH - APRIL 1994



TITLE INSURERS

The New Rating Game

MARCH • APRIL 1994

TITLE *News*

Volume 73, Number 2

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On the Cover: *Against a backdrop of customer demand, title insurance underwriting companies are finding their financial performance increasingly subject to formal ratings by independent rating organizations. An intriguing aspect of this scrutiny is the possibility for significantly different assessments of title insurer stress among the various rating entities. Dr. Nelson Lipshutz, veteran economic consultant to the title industry, offers a perspective beginning on page 18. (Design: Halford Design and Graphics; illustration: Ron Carnahan)*

FEATURES

8 **Federal Conference Achieves Objective**

This photographic coverage depicts ALTA members gathering in Washington for updates on leading issues and constituent visits with Senators and Representatives. It was a successful example of federal involvement that, in the words of Association President Park Kennedy,truly is what ALTA is all about.

11 **ALTA Membership- - A Critical Investment**

By Gerard R. Faller

It now is more important than ever for title professionals throughout the country to support ALTA through membership in the Association. Some strong answers are provided for refusals commonly encountered in the recruiting arena.

13 **Fannie Mae's Automated Payoff Process Efficient, Cost Effective**

By Gerald Flood

With input from the title industry and others, FNMA has embarked on the development of a project designed to automate delivery of payoff funds from settlement agent to mortgage servicer. In the view of FNMA, the automated process can lead to increased productivity, and savings in time and costs for all parties to a payoff transaction.

18 **Title Insurers– The New Rating Game**

By Nelson R. Lipshutz, Ph.D.

Spectacular growth of the title industry, several actual or near failures of large title underwriters, and financial caution in the wake of the S&L disaster have contributed to the emergence of formal rating of title insurance underwriting companies by outside organizations.

DEPARTMENTS

5 **A Message from the President-Elect**

7 **Letters**

21 **Names in the News**

25 **Affiliated Association Conventions**

26 **Calendar of Meetings**

26 **Index to Advertisers**

Title News is published bi-monthly by the American Land Title Association, 1828 L Street, N.W., Suite 705, Washington, DC 20036.

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Anyone is invited to contribute articles, reports and photographs concerning issues of the title industry. The Association, however, reserves the right to edit all material submitted. Editorials and articles are not statements of Association policy, and do not necessarily reflect the opinions of the editor or the Association.

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A MESSAGE FROM THE PRESIDENT-ELECT

The first ALTA Board of Governors meeting of the year has been completed and 1994 is truly under way! All members of the Board were on hand for this meeting. Those of you who have not attended an ALTA Board meeting would be impressed if not amazed by the number and diversity of topics that typically are discussed and acted upon. The kick-off meeting for this year was no different, as we worked on agenda items ranging from ALTA Bylaws amendments to the approaching zero hour for NAIC consideration of its proposed Title Insurance Agent Model Act.

It is not my intent to discuss any of those items in this message! I would like to devote a few lines to telling you about the ALTA Governors who represent your industry, who were in attendance at the recent gathering.

There are no new title underwriter members on this year's Board. President Park Kennedy, as expected, conducted the meeting in a professional and progressive manner. And, as usual, Dick Pollay, Herb Wender, Charlie Foster and Malcolm Morris–all of our underwriter members–had very good questions and answers that contributed to a productive atmosphere.

The new faces on the Board are those of agents, and it is a pleasure to tell you these newcomers did a more than credible job at their first meeting. Finance Committee Chairman Dan Wentzel, from California, and Ed Schmidt (Indiana) and Bayard Waterbury (Maryland), brought excellent thought and commitment to the proceedings.

Of course, the Board had the luxury of drawing from the experience of our Immediate Past President, Dick Oliver from Wisconsin. Not only did the newly elected Abstracter-Agent Section Chairman, Joe Parker, provide a thorough report from the ALTA committees reporting to his Section, he also brought the obvious benefit of the leadership and insight gained from many years of managing his agency in North Carolina.

It definitely is a pleasure to be associated with the members of this Board, and I look forward to working with all of them as the year goes on!

Linnie, Missi (our daughter), and I hope to visit with you at the April ALTA Mid-Year Convention in *warm* Arizona. The Curriers previously have had an opportunity to stay at the Convention hotel, the Scottsdale Princess, which is a superb meeting site.

We also look forward to seeing you at the other industry events on our calendar this year. May 1994 be another success story for you and the title industry!

Best regards,

Mike C. Currier

Mike C. Currier

LETTERS

Title News welcomes letters from readers that include commentary on articles or other material published in the magazine, as well as thoughts on other issues and topics of national concern to the title industry. Letters should be kept brief in the interest of space limitations. The editors reserve the right to determine which letters will be published, and to edit what is submitted as deemed appropriate. Address correspondence to Letters Editor, Title News, American Land Title Association, Suite 705, 1828 L Street, N. W., Washington, DC 20036.

Whole Loan Book–Another Inevitable EDI Sign

Sirs:

Phyllis Slesinger's article on Whole Loan Book Entry (*Title News*, January-February, 1994) underscores the importance of electronic data interchange to our industry. The framework upon which that concept is built is the communication of large volumes of data in standard formats among many participants.

Whether one welcomes the Whole Loan Book Entry concept, or fears it, or is skeptical of its feasibility, the fact remains that movement toward it and similar concepts (e. g., Fannie Mae's Automated Clearing House concept) has begun. The survivors in this industry will be those who recognize the inevitability of EDI and are prepared to face it in whatever form it presents itself.

Fred Hemphill
Senior Vice President-Chief Information Officer
Commonwealth Land Title Insurance Company
Philadelphia

(Editor's note: The writer is chairman of the ALTA Land Title Systems Committee EDI Subcommittee. Please see the article on Fannie Mae's Automated Loan Payoff Process in this issue of ***Title News****.)*

TUG Conference Scheduled in May

The Title Plant Users Group (TUG) will hold its annual conference May 17-19 at the Seattle Hilton. Representatives from over 50 computerized title plant sites across the country are expected, along with guest speakers, consultants and application software vendors.

Included in the conference program will be workshops on document imaging, digitized mapping, public record laws, sale of real estate information, maintenance of ad valorem tax systems, disaster recovery and other topics related to the maintenance of computerized plant systems.

TUG members represent plant sites from Miami to Seattle, and from Minneapolis to Houston. Those interested in this year's conference are invited to call the TUG secretary/treasurer, Glen Finley, in Albuquerque at 505-243-0608.

ILTA-LTI Seminar Set for April 26

ALTA's Land Title Institute and the Illinois Land Title Association are co-sponsoring a "back to basics" seminar for title and escrow professionals. The full day event will be held on Tuesday, April 26, in the Chicago area, at the Radisson Hotel Lisle-Naperville, west of the city near the I-88 and Naperville Road exit. Starting time is 8:20 a.m.

Topics and discussion leaders are:

- Preventive measures to avoid claims–John J. Foster, vice president and regional counsel, Commonwealth Land Title Insurance Company
- Survey issues and endorsement coverages–Richard F. Bales, title officer, Chicago Title Insurance Company, and John A. Thornhill, professional land surveyor
- Industry issues and report from ALTA–Ann vom Eigen, ALTA legislative counsel
- Problems at the closing table and how to deal with them–Oscar H. Beasley, senior vice president and senior title counsel, First American Title Insurance Company
- Title insurance in the secondary mortgage market–James R. Kletke, senior vice president and chief underwriting counsel, Stewart Title Guaranty Company

Individual registration charge is $120 for those received by April 1. After that, the registration increases to $145 per person. Registration checks should be made payable to Illinois Land Title Association and sent to ILTA Executive Director Michael Lane, 625 South Second Street, Springfield, IL 62704 (telephone 217-528-5230). The registration payment includes food and materials but does not cover lodging. Sleeping rooms are available at the hotel ($79 single/double) and may be confirmed by calling the Radisson at 708-505-1000 and identifying as part of the ALTA/ILTA group. The hotel will release all rooms not confirmed by April 11.

Roberts President Of Lawyer Body

Paul E. Roberts, member of the ALTA Lender Counsel Group and senior member of the real estate department of the Denver law firm of Sherman & Howard LLC, currently is serving as president of the American College of Real Estate Lawyers.

ACREL is a non-profit organization comprised of more than 800 lawyers who have gained national distinction in the practice of real estate law. Admission to the College is by invitation, and the group concentrates on improving real estate law practice and enhancement of the professional knowledge of its members.

President Roberts formerly was a member of the real estate law faculty at New York University and has served as chair of the New York State Real Property Law Section. His affiliations include the Urban Land Institute, the International Council of Shopping Centers, and the American Bankruptcy Institute. He earned his juris doctorate at Columbia Law School.

Federal Conference Achieves Objective

Title men and women from across the nation assembled at the historic Willard Hotel in Washington early in March for a 1994 ALTA Federal Conference that highlighted updates on leading issues and one-on-one constituent visits with members of Congress.

Leading off with a commentary focused on health care and tax issues from a panel of Capitol Hill staff members, the first afternoon then featured a discussion of the impact on the title industry from the "information superhighway," in a panel presentation by representatives of Fannie Mae, Freddie Mac and the Mortgage Bankers Association of America.

Addressing the ALTA group at breakfast the following day was Congressman Sam Gibbons (D-FL), third ranking member of the influential House Ways and Means Committee, who provided legislative insight into health care and tax matters. Gloria Borger, assistant managing editor and former chief Congressional correspondent for *U. S. News & World Report*, followed with a commentary accented by sharp witted observations on the national political scene before ALTA Government Affairs Committee Chairman Dick Toft (Chicago Title Insurance) and Legislative Counsel Ann vom Eigen presented a "how to" session on fundamentals of Congressional lobbying.

During lunch, Conference attendees received another perspective on health care from Congressman Tom Bliley (R-VA), ranking minority member of the House Energy and Commerce Committee's Health Subcommittee and a key player in legislation involving the health package.

The afternoon was left open to facilitate visits with Senators and Representatives by their title industry constituents. In the evening, the group returned to the Willard for a reception and dinner that included uniquely Washington entertainment--a satirical presentation by The Capitol Steps, all of whose members have worked on Capitol Hill.

In his welcoming remarks on opening day, Association President Park Kennedy (First American Title Insurance) commended those on hand for their participation, emphasizing that federal involvement truly is what ALTA is all about. As the Conference concluded, attendees returned home with the feeling that further advancement in communication between their industry and the federal government had indeed been accomplished.

Views from the 1994 ALTA Federal Conference include, top photograph, ALTA Government Affairs Committee Chairman Dick Toft (Chicago Title Insurance) being greeted by eleven-term Chicago Congresswoman Cardiss Collins, a member of the House Energy and Commerce Committee. Florida Democratic Congressman Sam Gibbons, third ranking member of the powerful House Ways and Means Committee, was a popular guest speaker. At center, left, he visits with Dixie Land Title Association President-Elect Mary Pull (Southland Title, Atlanta) and, at lower right he talks with ALTA President Park Kennedy (First American Title Insurance). In the other photograph, he is shown with two fellow Floridians, Florida Land Title Association Executive Secretary Lee Huszagh (left) and FLTA Past President Bill Randol (National Title Insurance). Congressman Gibbons is an attorney who has conducted real estate closings earlier in his career.

At top, left, Congressman Tom Bliley (R-VA) (center) enjoys a luncheon conversation with two Richmond constituents who also are from his neighborhood--Charlie Foster and Jan Alpert (both Lawyers Title Insurance). Pat Ritz (Oregon Title Insurance) questions a program speaker at top, right and two New Hampshire titlemen, Richard Dickson (First American) (left) and John Bielagus (Accurate Title) listen, second row, left. Second row, right, are the RESPA Regulations panelists who are, from left, Jay Varon, Real Estate Settlement Services Providers Council; Sally Sciacca, National Association of Realtors; Sarah Rosen, HUD; and the moderator, Bill Rice (Great Valley Abstract). Mike Wille (The Title Company) and Gloria Borger, *U.S. News & World Report*, are in the third row photograph. ALTA Past Governor Chuck Juhl (Benton County Title)(left) and Past President Dick Cecchettini (Old Republic Title Insurance) visit at bottom, left. At bottom, right, are members of the "information highway" panel, who are, from left, Dan McLaughlin, Mortgage Bankers Association of America; Rick Amatucci, Fannie Mae; Mark Fleming, Freddie Mac; and the moderator, Greg Kosin (Greater Illinois Title).

Wichita Company Now Is Golden

Highlighting the first edition of the company newsletter in expanded and redesigned format is a lead article on the April 1 Golden Anniversary of The Security Abstract and Title Co., Inc., Wichita, KS.

The company was founded in 1944 by Orville Bell, father of Roger and John Bell, who remain active in the business as president and executive vice president, respectively. Roger is an ALTA Honorary member and past president, while John presently serves as chairman of the Association Public Relations Committee and is the longtime secretary of the Kansas Land Title Association.

Jennifer Weast, daughter of Roger and Helen Bell, is secretary-treasurer of Security Title.

The article documents the company history, including its introduction of the first residential title insurance subdivision coverage in its market in the early 1950s, when Security Title was an agent for the former Kansas City Title Insurance Co. Security retained its agency relationship when Kansas City Title later was acquired by Chicago Title Insurance Company. It also was noted that Security has been closing residential and commercial transactions for more than 30 years.

Income, Revenue Rise for Lawyers

Lawyers Title Corporation, parent of Lawyers Title Insurance Corporation, has reported net income of $29 million for 1993 on revenue of $503.9 million. The revenue figure is an increase of 7 percent above 1992 after deducting $34 million in revenues because of discontinuance of relationships with what the company described as several high commission agents in the western states.

Net income for the company was nearly $12 million in 1992.

The Lawyers Title operating margin before claims and investment income was reported as 13 percent for 1993, an improvement over 10.8 percent for the previous year.

Claims in 1993 represented 11.2 percent of the company's operating revenue, contrasted with 13.3 percent for 1992.

Oklahoma Concern Hits 92-Year Mark

The Blaine County Abstract Company, Inc., Watonga, OK, is celebrating its 92nd birthday this year. According to its records, the company has delivered 36,227 abstracts to customers.

E. T. Hoberecht, Sr., bought the firm in the mid-1940s and merged it with Guaranty Abstract Company, which he and his son, Earnest Hoberecht, opened in 1936. Earnest Hoberecht, current president of the company, lived and worked in Asia as a war correspondent and foreign correspondent for about 24 years before returning to take over management upon the death of his father in 1968.

ALTA Membership - - A Critical Investment

By Gerard R. Faller

The land title industry is booming in America, with companies located in nearly every county throughout the nation. Remarkably, the majority of these title companies are not ALTA members. With even a fraction of these prospective members, ALTA's resulting size and strength would dramatically increase the industry's access to politically powerful decision makers and enable ALTA to positively affect many nationally important issues.

Knowing that a strong and sizeable membership gives ALTA such an advantage, every title professional should be eager to join ALTA. Makes sense, doesn't it? Such a simple and persuasive argument should make recruiting new members easy. But, those of us serving on the ALTA Membership and Organization Committee and the Recruitment and Retention Subcommittee often encounter a decidedly negative response when recruiting new members for ALTA. Much to our surprise, there are some very fine title folks out there who, for a variety of reasons, aren't particularly interested in taking advantage of all that ALTA has to offer.

Many prospective members dismiss the value of Association membership by citing a variety of reasons or excuses. Regardless of a company's size or location, the protests we hear are often the same. To many of us on the front lines of recruiting, this is an indication that the function, purpose, significance, and value of ALTA membership are not universally understood.

After surviving the economic turmoil of the late 80s, I believe it is now more important than ever for title professionals to support ALTA's efforts to influence the future of the title industry. There are too many critical issues lurking on the horizon for us to consider deserting our posts. To assist this effort, all ALTA members should support ALTA by making a concerted effort to recruit new members for the Association. A large, strong, supportive ALTA membership is a powerful and influential resource - - a necessity for the preservation of the title industry.

> *After surviving the economic turmoil of the late 80s, I believe it is now more important than ever for title professionals to support ALTA's efforts to influence the future of the title industry.*

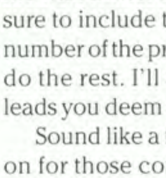
To build the strongest ALTA possible, we need your help in recruiting. In order to help everyone with their recruiting efforts, I have compiled here the most commonly encountered excuses for not joining ALTA - - along with some rather enlightening answers. If every member reading this would use these answers to persuade a non-member to join, we would be closer to attaining that large, strong, supportive membership we would all like to see.

For those of you with little or no time to spare, you don't even have to close the order. Just make the first contact and write me with a brief description of the result. Be sure to include the address and telephone number of the prospective member, and I'll do the rest. I'll arrange to follow up any leads you deem warranted.

Sound like a fair deal? Then please read on for those commonly encountered excuses and some great responses.

I'm Already a Member of My State Title Association

State association membership is a good start, but it's not enough. State associations have their hands full dealing with state legislatures and, often, state regulators. That still leaves Congress and the federal agencies to think about. ALTA is the only national association working solely on behalf of the title industry. In Washington, ALTA serves as your eyes and ears, watching for pressing title issues. A current example of



The author is serving his third consecutive term as chairman of the ALTA Membership and Organization Committee. In addition, he is a member of the Wisconsin Land Title Association Board of Governors. He has spent nearly 20 years in the title industry; he and his family have operated abstract and title companies for four generations. A graduate of Marquette University, he presently is president of Green Bay Abstract and Title Co., Green Bay, WI.

one difficulty ALTA is addressing is that of a powerful House committee chairman who strongly feels that individual states are doing an inadequate job of regulating insurance. His solution: Turn insurance regulation over to a federal authority.

I Wouldn't Attend ALTA Conventions, So I Wouldn't Get Much Out of Membership

While attendees will attest to the value (and fun) of ALTA's two yearly Conventions, the biggest benefit of ALTA membership by far is information communication. ALTA is constantly communicating to its members the latest information via numerous publications, bulletins, special mailings and the fax machine. By maintaining a constant flow of information, ALTA keeps its members the best informed people in the title industry. Keeping up to date on industry affairs and developments in these challenging times is just one excellent reason for maintaining ALTA membership.

National Issues Don't Affect Me

Wrong. Federal legislation, administrative action, and court decisions stand to impact most local abstract and title practices - - regardless of size or location of operation. A few examples are RESPA, the efforts of banks to enter the title insurance agency business, and the development of the NAIC's title agent model act.

Mine Isn't a Big Business, So Topics Covered at Conventions Won't Apply to Me

Although part of all ALTA Conventions is focused on major national issues, the overall program often has far-reaching interest for every size title business. Recently, ALTA brought a nationally prominent speaker to a Convention for his comprehensive analysis of President Clinton's proposed national health plan. In addition, considerable emphasis at convention educational sessions is concentrated on the individual title manager- -without a great deal of emphasis on company size. Examples of recent educational topics attracting industry-wide attention include optical imaging of local public records at the court house, local title marketing, in-office employee training, and managing stress.

The Underwriters Run ALTA

While some may feel that this was once true, it is definitely not so any more. As an abstracter/agent active in ALTA, I have been quite impressed by the balanced representation between the abstracter/agent and the underwriter segments of the industry. The makeup of all executive bodies of the Association is evenly divided between abstracter/agents and underwriters. And, while all of the large title insurance underwriting companies are prominent and involved in ALTA, none receives more than one vote per company. All firms are represented equally by ALTA. This means that a small abstract firm (for example, one owned and operated by a husband and wife) receives only one vote, the same as any of the largest underwriting firms.

I'm Too Small to Make A Difference- -My Vote Doesn't Count

Every vote, every voice, counts. Exercising strength in numbers is our best hope for preserving the title industry as we know it. By representing over 2,000 members, ALTA achieves goals that none of us could reach alone. And, when visiting Capitol Hill, ALTA can tell our elected officials that we, the voters, are concerned about important issues.

The real question: Can you afford not to do your part in these challenging times?

I'm Doing Fine Without ALTA Membership

The time for hiding our heads in the sand has passed. Title people throughout the country stand to be impacted by national developments that can arise with little warning. Joining ALTA keeps the Association on the job and close to the action. Ongoing membership in our national Association offers the best assurance of a secure future for everyone in the title business.

I Can't Afford the Dues

Think again. A minimum Active dues payer is charged only $200 per year. Yet, if the total cost of beneficial membership were divided equally among all Active members, the figure would be $1,200. This means that, since most ALTA members pay considerably less than $1,200 in dues, they receive a handsome value in terms of membership benefit. Besides the obvious importance of having a strong, attentive national Association at work for us full-time, ALTA members receive a continuing flow of information. We are constantly updated on important developments–as well as given access to information not available anywhere else.

The real question: Can you afford not to do your part in these challenging times? For companies of all sizes everywhere, ALTA membership is a proven investment in our future.

So–let's hear from you!

* * *

As an ALTA member who has just shown the commitment needed to read this article, will you contact your competitor--or other non-member title professional? Your assistance would go a long way toward increasing membership and benefiting ALTA. If you are willing to help, I would be happy to assist in any way I can. You may reach me, Gerry Faller, at: Green Bay Abstract & Title Co., 126 North Madison St., Green Bay, WI 54301, 414-435-0035.

As a dedicated member of ALTA, you can definitely help make a difference. Remember, the future belongs to those who prepare for it.

Title Data Sells Joint Plant System

Title Data, Inc., has announced the sale of a computerized title plant and tax system to Joint Title Plant of Santa Clara County, a partnership headquartered in San Jose, CA.

Joint Title Plant consists of Chicago Title Insurance Company, Commonwealth Land Title Insurance Company, Fidelity National Title Insurance Company, First American Title Insurance Company, Old Republic National Title Insurance Company, Stewart Title Guaranty Company and several large California-based title insurance agents.

According to Title Data, the San Jose transaction marks the company's entrance into the California market. Title Data also has scheduled for 1994 completion a computerized stand alone plant system in Anaheim.

Investors Title Revenue Increases

Investors Title Company, Chapel Hill, NC, has reported a 9 percent increase in total revenues for 1993–to $15,463,260.

For 1993, net income totaled $2,313,014, compared to a net loss of $1,053,581 for the previous year.

Fannie Mae's Automated Payoff Process Efficient, Cost Effective

By Gerald Flood

Technology is revolutionizing the way the mortgage industry conducts its business. At Fannie Mae, and in the offices of many mortgage industry participants, intelligent and innovative use of technology is transforming many business functions, producing dramatic productivity improvements and remarkable cost savings.

In the January-February, 1994 issue of *Title News* (p. 19), an article explains the new Whole Loan Book Entry process for tracking mortgage ownership rights. This technological transformation of the process to track mortgage ownership rights is projected to save the mortgage industry $164 million every year. At the same time, a large effort to standardize the electronic communication of many mortgage industry business transactions, through Electronic Data Interchange (EDI), is currently under way. The transaction sets currently under investigation are projected to save the industry $568 million, on a net present value basis, over five years.

Independently, the title industry has done marvelous work in its effort to develop EDI transactions to facilitate the title order process. Other re-engineering applications will yield still further increases in productivity and cost savings.

The purpose of this article is to describe one such application, the automated payoff process. Automated payoff will be an efficient and cost effective alternative to the current manual payoff process. The article will cover the evolution of the project thus far, the proposed process in some detail, the benefits of the proposed process, and finally the issues relevant to the title industry as I understand them.

Background

Several months ago, Fannie Mae began work on a project to automate the delivery of payoff funds from settlement agent to mortgage servicer.

Fannie Mae's proposed automated payoff process will make the nation's real estate closing system more efficient and therefore less expensive, benefiting the title industry and the public in general.- - Parker S. Kennedy, ALTA president and president, First American Title Insurance Company

One of the first steps in the development of this project was to contact the American Land Title Association (ALTA) to ask for input from title industry representatives. With ALTA's help, we were able to meet with several title industry participants who helped shape the proposed process.

Following the advice of title industry participants, the scope of the project was significantly expanded to include automated requests for a payoff demand statement and enhancements to the release process. Additionally, we were sensitized to the myriad systems and technical platforms currently in use by the industry. We want to be able to accommodate them all. We hope to be able to do that by using EDI transactions whenever possible and standardized transactions whenever an EDI transaction cannot do the job.

At the same time, we contacted several representatives of the mortgage servicing community to ask for input on the project. The primary concern of mortgage servicers is to receive payoff notification on the day of loan closing. By receiving timely notification of loan payoffs, servicers could reduce the interest expense they currently incur on loans that collateralize mortgage-backed securities.

Additionally, at Fannie Mae we recognize that in order for the system to gain industry-wide acceptance, it must be both easy to use and inexpensive to implement. For this reason, we are currently planning to offer a PC-compatible, Windows-based software application designed for the automated payoff process. This software package will facilitate creation, transmission,

[1]Interagency Technology Task Force, "Whole Loan Book Entry Concept for the Mortgage Finance Industry" (1993), p. I-2

[2]Gartner Group Consulting Services for MBA Interagency Technology Task Force, "EDI Cost-Benefit Analysis" (1993) p. 3

The author is manager of industry technology initiatives at Federal National Mortgage Association. He has been with FNMA for eight years and his previous assignments have included securities administration, LASER operations, corporate information services, and corporate development. He received his bachelor's degree from John Hopkins University.

Figure 1

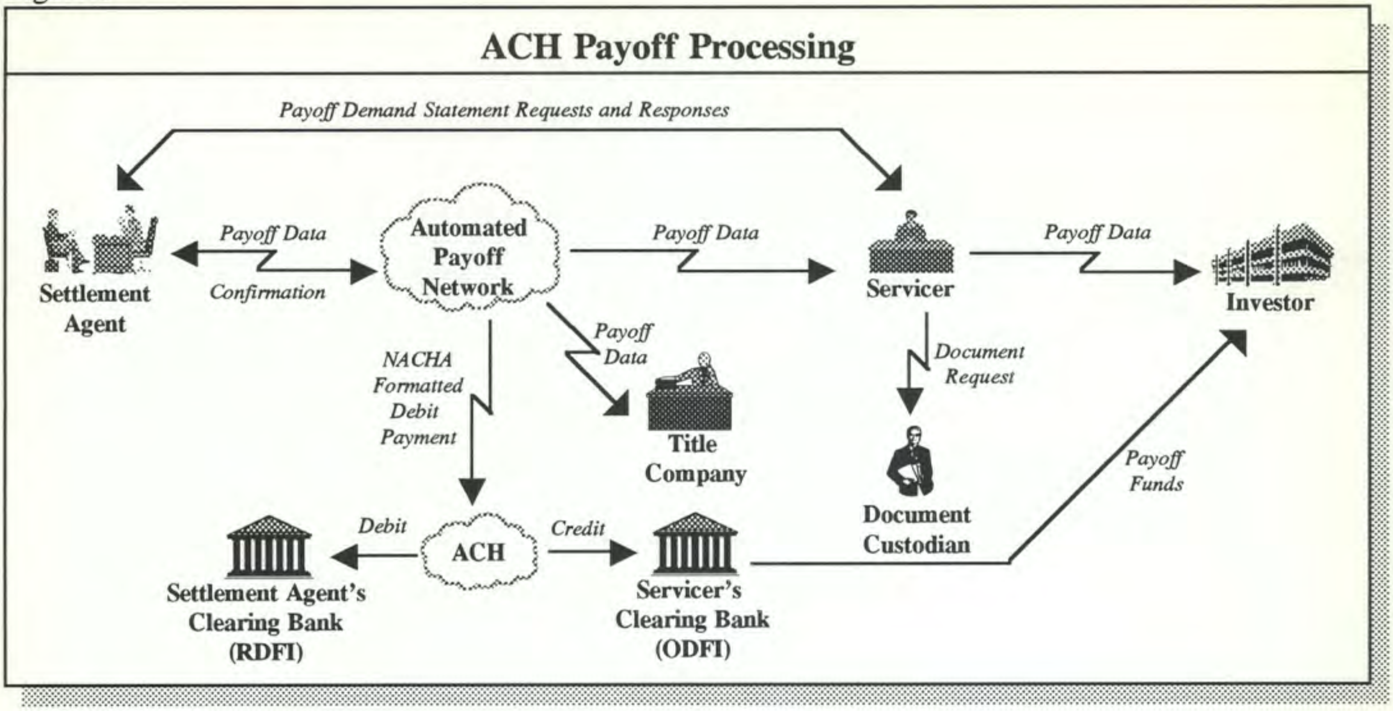


Figure 2

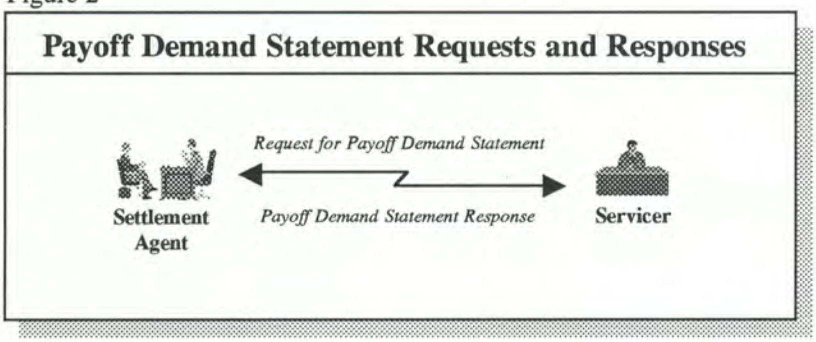
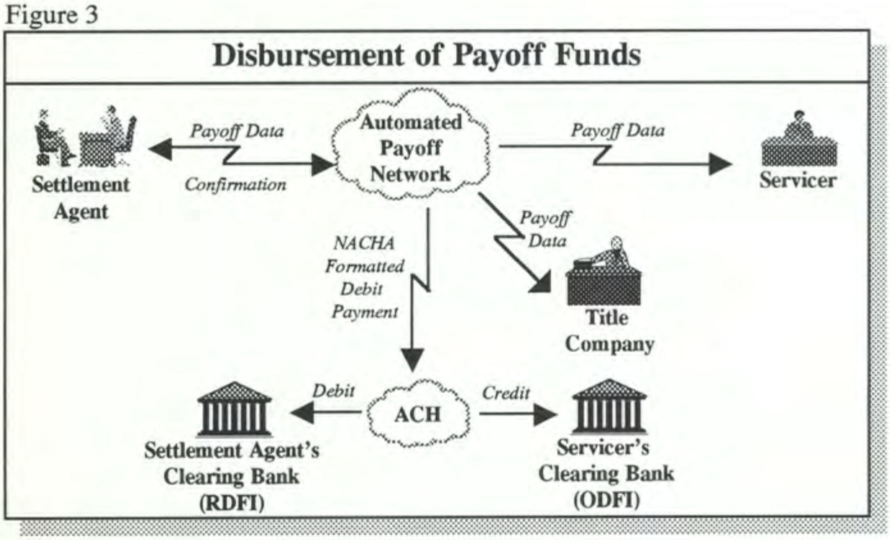


Figure 3



and retrieval of automated payoff transactions.

Keeping in mind the feedback received, we at Fannie Mae have been developing a process to automate the mortgage loan payoff. An early prototype of the system to handle the process was presented at the ALTA Annual Convention in October, 1993. Since then, we have further revised the scope of the project and have continued to develop the automated payoff system and process. (See Figure 1)

Now, enough history. Let's describe the process.

Automated Payoff Process

The new payoff process will significantly automate the following payoff functions:

1. request and delivery of the payoff demand statement;
2. disbursement of payoff funds; and
3. request for loan documents from the document custodian.

In addition, since a nationwide data network will be required to facilitate the automated payoff process, we hope to be able to provide settlement agents and servicers with the ability to communicate with one another via electronic mail.

First, let's follow a typical mortgage loan payoff through the automated process as it is currently planned, then describe other features and possible variances in the process. Finally, I'll describe some of the potential enhancements being considered for future versions of the process.

Step 1: Payoff Demand Statement (PDS) Request and Response

A settlement agent, after being asked to conduct the closing for a home sale, and probably after the successful completion of a title search, can utilize the automated payoff process to obtain a payoff demand statement from the loan servicer. (See Figure 2)

- The settlement agent collects data to identify the loan to be paid off. This data will be included in the transaction to request a Payoff Demand Statement (PDS). It includes: name and social security number of borrower(s), property address, and servicer identification.
- The settlement agent sends a PDS request transaction through the automated payoff network to the appropriate servicer.
- The servicer, using its loan servicing system, collects data required for the PDS. This data includes: current balance, per diem or monthly interest, fees, and effective date and termination date of the PDS.
- The servicer returns a PDS transaction through the network to the settlement agent that requested it. (Fannie Mae is working to create a boilerplate for the automated PDS letter. By doing so, only the data specific to each loan, rather than the entire letter, will need to be transmitted through the network.)
- The settlement agent analyzes the PDS letter and notifies the borrower(s) of the amount necessary to pay off the loan.

Step 2: Disbursement of Payoff Funds

A settlement agent, on the day funds are collected for loan closing, can utilize the automated payoff process to initiate an automated transfer of payoff funds from its account to the loan servicer's account. This is done via the automated payoff transaction. The automated payoff transaction will also be used to notify the servicer and title company of the payoff. All funds transfer transactions must be initiated by the settlement agent. (See Figure 3)

- The settlement agent collects the data required for the automated payoff transaction. This data includes: payoffamount, closing date, loan identification, servicer identification, and title company identification.
- The settlement agent submits the automated payoff transaction to the automated payoff network. This transaction will be a Financial EDI (FEDI) transaction. It will contain both payment order information (bank account, bank identification, and amount) and payoff information (loan identification, closing date, and payment amount).
- The network directs the payoff information from the automated payoff transaction to the appropriate servicer and title company.
- The network reformats the payment order information into an Automated Clearing House (ACH) transaction that is submitted to the ACH network on behalf of the servicer's bank. This transaction will debit the settlement agent's account and credit the servicer's account for the amount of the payoff.
- The network returns a confirmation of all payoff transactions to the settlement agent. The confirmation should include the unique identifier, effective date and amount of each transaction.
- The servicer and title company retrieve the payoff information from the network.
- The servicer and title company process the payoff.
- At the opening of business on the first business day after submission of the automated payoff transaction, the settlement agent's account is debited and the servicer's account is credited for the payoff.

Step 3: Release Preparation and Document Request

A servicer, after receiving payoff notification, will begin processing the payoff on its servicing system. After receiving payoff funds, a servicer can begin preparing the release. Using the automated payoff process, a servicer can request any loan documents not in its possession from the document custodian holding them. In many states, these documents are required to record the release. (See Figure 4)

- The servicer receives funds sufficient to pay off a loan.
- The servicer sends the request for loan documents through the automated

Title Executive Sees Benefits

It makes sense to utilize technology to make our lives easier and our businesses more efficient. We have all seen the changes computer technology has brought to the title industry, from computerized title plants to escrow closing systems. Fannie Mae's automated payoff system is just one more technological development which promises to revolutionize the way in which we do business.

Many benefits will be realized by settlement agents with the implementation of this new system. Payoffs will occur through the network, reducing wire transfer and overnight mail charges. Payoff statements may be ordered with relative ease, making the process faster while reducing clerical time spent by the settlement agent. Releases of prior mortgages will be available much sooner after closing since the process of obtaining those releases will be implemented immediately upon the payoff occurring.

Of course, there will be other benefits to utilizing this system as well. I'm sure you'll hear more about the development of the system in the months ahead. Meanwhile, "hats off" to Fannie Mae for working so hard to improve the manner in which we all do business.--*John Hollenbeck, vice president and assistant senior underwriter, First American Title Insurance Company*

If an information-driven business like ours is to be competitive, it must fully maximize its use of technology. Technology does not simply improve the way we do business, it is allowing us to invent a new way of doing business. --Franklin Raines, Fannie Mae vice chairman pay off network to the document custodian.

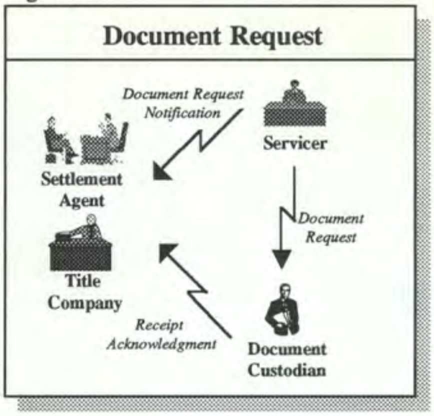
- As the servicer submits the document request to the network, a notification of this request is sent to the settlement agent and title company over the network.
- When the custodian retrieves the document request transaction from the network, a receipt acknowledgment is sent to the servicer, settlement agent, and title company over the network.

Variances and Other Features

Although the automated payoff system will provide the greatest benefit to all parties when used in its entirety, this may not be feasible in all situations. Execution of any of the three steps mentioned above will not depend on the execution of any of the previous or subsequent steps.

Therefore, a settlement agent or servicer can select the steps that provide the most benefit when incorporated into an existing payoff operation. In other words, even if a settlement agent receives a PDS from a servicer through the U.S. mail, the settlement agent may disburse payoff funds to the servicer through the automated payoff network. Any combination of steps should provide an enhanced payoff process.

Figure 4



Although any step may be bypassed, selective receipt of transactions will not be permitted. A servicer, for instance, cannot retrieve outstanding payoff notifications without also retrieving outstanding PDS requests from the network. All outstanding transactions for a servicer or settlement agent will be simultaneously retrieved from the network.

Settlement agents will be permitted to cancel or amend any request for a PDS. Similarly, a servicer will be permitted to void or amend any PDS previously sent. The date and time of all transactions will be tracked through the automated payoff network.

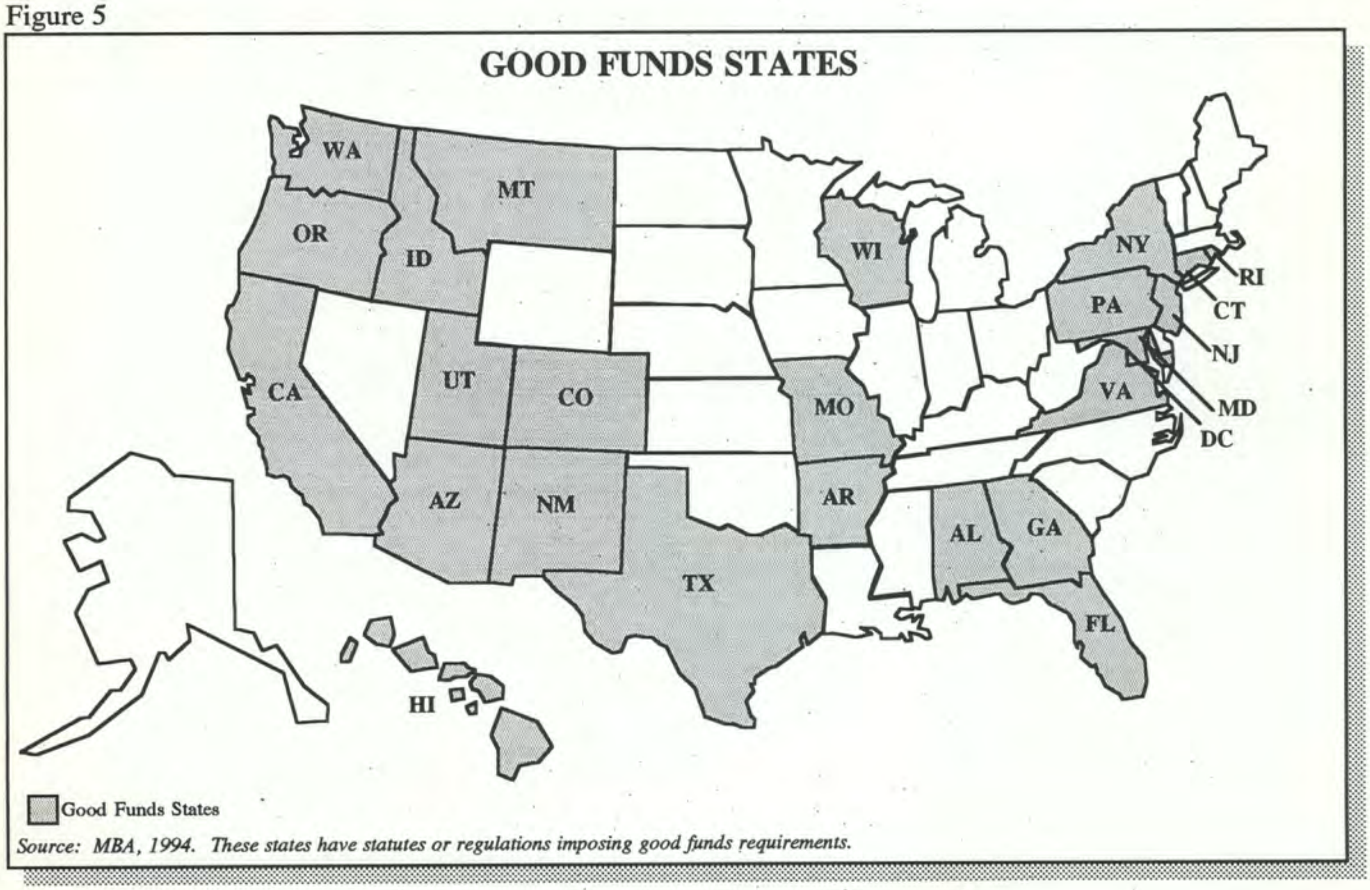
As mentioned above, Fannie Mae is planning to offer a software application designed for use with the automated payoff system. An important feature of the planned software is the inclusion of blank release forms for all states. Based on the address of the paid off property, the software will allow the servicer to select the desired release form. The software will then transfer the data it holds to the appropriate place on the form and allow the servicer to enter any additional information required for the form. The servicer may then print the form and process the release. This feature should facilitate release processing for most servicers.

Possible Future Enhancements

The automated payoff process will surely need to be integrated with the much broader Whole Loan Book Entry (WLBE) system. The automated payoff process will likely be developed before the WLBE project is operational and may be implemented prior to WLBE. Since Fannie Mae is part of the Interagency Task Force (IAT) that is developing WLBE, we will work to ensure a smooth integration of the two projects.

Several title companies and settlement

Figure 5



Source: MBA, 1994. These states have statutes or regulations imposing good funds requirements.

agents have expressed an interest in extending the scope of the automated payoff system to allow lenders to deliver loan origination funds to the closing table via an ACH transaction. This enhancement to the ACH payoff system is currently being investigated.

A final enhancement currently under investigation is the further automation of the release process. This enhancement depends in large part on the direction and scope of the WLBE project. WLBE will involve recording offices across the country. These recording offices will be critical to further automation of the release process. As mentioned above, Fannie Mae will be involved in the development of WLBE. Also, Fannie Mae will actively promote the productive and intelligent use of technology to re-engineer mortgage industry activities.

Benefits

The automated payoff process will offer benefits to every party to a payoff transaction. In this section of the article, I will concentrate on the benefits to title companies and settlement agents, while also mentioning the benefits to other parties to the transaction. In addition, the benefits that can be realized through the use of FEDI will be mentioned.

Potential Benefits-- Settlement Agents

- *Facilitated Payoff Demand Statement Request and Response* -- The automated payoff process should alleviate the current difficulties in connecting with the proper person in the servicer's office to request a PDS. It should also eliminate any redundant telephone calls, faxes, and/or letters between settlement agents and servicers.
- *Reduced Funds Delivery Charges* - - Currently, most settlement agents deliver payoff checks to servicers via overnight mail. The cost of this overnight delivery is probably close to $10 per transaction. Using the automated payoff network, a settlement agent will generate FEDI transactions to deliver payoff funds to servicers. The costs associated with processing a FEDI transaction through the automated payoff network should be significantly less than the cost of overnight mail delivery.
- *Simplified Disbursement Operation* -- Using the automated payoff system, a

continued on page 23

TITLE INSURERS

The New Rating Game

By Nelson R. Lipshutz, Ph.D.

Time was when a title insurance underwriter could count on an NAIC Form 9 with a positive surplus and a reputation for fair dealing to guarantee acceptability of its product in the marketplace. No more--those days are gone forever. In their place is a new environment in which title insurance customers are demanding an outside opinion, in the form of a formal rating issued by an independent rating organization, before accepting a title insurer's policy.

It's important to understand what a formal rating means. Ratings are not intended to provide some overall ranking of a company in all ways for all purposes. A financial rating is fundamentally a credit rating, i. e., an assessment of a title insurer's ability to honor its financial obligation to policyholders to pay valid claims.

It should not be surprising that company ratings have become de riguer. In retrospect, it should have been surprising that ratings were *not* required in the past. Insurance company ratings in all other lines in both property/casualty and life insurance have been used for years and, in fact, have been a staple of both personal lines and commercial lines marketing.

There are several reasons that the rating game chose this moment to strike the title business. The first is the spectacular growth of the title industry, which changed it in 25 years from a mere $300 million footnote in the insurance encyclopedia to a significant $5 billion line. The title insurance industry has simply become too big to ignore. (As Senator Dirksen of Illinois was wont to say: "A billion here, a billion there, and pretty soon you're talking real money.")

A second reason is the recent occurrence of several well-publicized failures and near failures of large title underwriters. Extensive press coverage of these events, along with the increased emphasis on solvency in the advertising programs of many leading title underwriters, alerted the industry's customers to the speed with which an apparently healthy underwriter can be transformed into an anemic shell through surplus hemorrhage if conditions are right.

A third, and perhaps the most important, reason is the rebirth of financial caution as a virtue in the wake of the S&L disaster. On the positive side, it has reminded fiduciaries that exposure to the risk of financial institution failure is not just a bogeyman, but is a real danger that must be actively avoided. On the negative side, the post-80s outbreak of recriminations (both civil and criminal) over financial institution failures has placed a great survival premium on the ability of those responsible for selecting which financial institutions to use to prove, in the event that something goes wrong later, that their earlier selection was soundly based.

> *In retrospect, it should have been surprising that ratings were **not** required in the past.*

That's how we got here. But exactly where are we?

Title Insurer Rating Today

The Federal National Mortgage Association (FNMA) is far and away the title insurance industry's largest customer. Early in 1993, FNMA indicated that it intended to announce a policy of accepting title insurance only from underwriters with adequate financial ratings. FNMA indicates that it will use ratings as a simple "yes-no" mechanism: a company achieving a specific minimum will be acceptable, and it will make no difference how much the company's rating exceeds the required minimum. Similarly, it will make no difference which rating organization issues the acceptable rating, so long as the rating organization is acceptable to FNMA. While the final details of FNMA's policy will not be formally announced until later this year, three rating organizations already have leapt into the title insurance rating marketplace. Each takes a somewhat different approach to developing title insurer ratings.

S&P. The largest rating organization is the venerable Standard & Poor's Corporation of New York. S&P develops its ratings on a fee for service basis (i.e., the rated company pays) and already has developed ratings for some of the largest title insurers. (In addition to the claims-paying-ability ratings discussed here, S&P also rates the public and private debt securities of title insurers). The S&P approach to rating involves a detailed examination of the company almost amounting to a management and financial audit. (The approach is well described in the publication, Standard & Poor's Insurance Rating Services Title Insurance Rating Criteria.) The S&P approach places substantial weight both on management's strategic intentions and on the resources available from corporate parents.

Demotech. In contrast, another currently active title insurer rating organization uses a rating approach that is exclusively dependent on quantitative analyses of the historic financial statistics of the rated underwriter on a stand-alone basis. Demotech, Inc. of Columbus, OH, is an actuarial consulting firm with experience both in general property/casualty insurance and in mortgage insurance. Demotech, which was the first company to release title insurer ratings to the public, rates all title insurers on an annual basis without charge, and sells its ratings in book form (First Rate/Title–Financial Stability Ratings) to subscribers.

Demotech indicates that its ratings are developed through the use of a quantitative Financial Stability Analysis Model, and does not give any weight to management or to corporate affiliations. The model is based upon statutory accounting data, independent audits, and other financial information submitted by company management.

LACE Financial. The other currently active title insurer rating organization is LACE Financial Corporation of Frederick, Maryland. LACE is an acronym for Liquidity-Asset Quality-Capital-Earnings. The LACE organization is primarily a bank rating organization. LACE rates all title insurers without charge, and sells its ratings in book form (LACE Ratings–Title Insurance Companies) to subscribers. At present, LACE rates title insurers semiannually, using December and June data, and intends to move to quarterly ratings in 1995.

The LACE service includes background information supplied by the companies regarding their scope and area of operations, type of policies issued, self-imposed policy limits, and any existing internal or external reinsurance agreements. The companies are divided into three peer groups based on asset size, and averages for each peer group are presented in addition to overall averages.

While the LACE publication presents extensive statistical tables on each title insurer, the organization indicates that its final ratings incorporate substantial quantitative analysis of management and market factors. In contrast to S&P, LACE maintains that its ratings are based exclusively on historic performance and current status, and do not depend on projections or expectations of future performance.

Perhaps the most important question is whether any one particular rating organization will have significantly better success than the others in predicting insurer stress.

Title Insurer Rating Tomorrow

FNMA has indicated that it will accept ratings issued by S&P, Demotech, and LACE, and in addition will accept ratings by Moody's Investor's Services, well known for its ratings of public and private sector bond issues, and by Duff and Phelps, an established credit rating organization. What, then, can we expect from the emerging world of multiple ratings?

One interesting question is what the effect will be if significant differences arise between the ratings issued for the same company by different rating organizations. FNMA has indicated that it will accept a satisfactory rating from any approved rating organization. But, while the FNMA requirements are the precipitating cause of the new ratings, FNMA will not be the only ratings user. Other parties inevitably will come to rely on the ratings, in particular the purchasers of title insurer debt and equity securities. What relative credence the capital markets will place on the different ratings remains to be established.

Perhaps the most important question is whether any one particular rating organization will have significantly better success than the others in predicting insurer stress. A rating is very much like a parachute–by the time you find out it doesn't work, it's too late to do anything about it.

Blessings and Curses

Is the new world of ratings better or worse than the old world without them? It's a little early to say but, on balance, the new world is likely to provide more benefits than costs to the title industry and its customers.

To underwriters, the establishment of ratings will mean some new out-of-pocket costs, both in the form of fees to some rating services and as overhead costs to provide data to the raters and to maintain ongoing liaison. On the other hand, the existence of impartial and credible third-party ratings is likely to significantly lower the cost of capital to well-rated companies approaching the financial markets. The existence of ratings may also decrease the level of marketing effort needed to establish an underwriter's acceptability, particularly with new institutional customers.

The rating process, while it has no direct impact on agents, may have several indirect effects. On the cost side, agents may need to deal with more extensive reporting to underwriters and more stringent underwriter requirements for financial controls to the extent that underwriters will need to adopt such policies to maintain acceptable ratings. On the benefit side, agents will be able to use ratings as useful information in the selection of an underwriter and as a marketing tool.

Title insurance customers will bear the cost of learning yet another system of company ratings. This cost will be more than

The author is founder and president of Regulatory Research Corporation, Waban, MA, and has developed methods of economic analysis that have been adopted as the basis of title insurance regulation throughout the country. His activity has included presenting testimony before state insurance departments, and working with the ALTA Research and Accounting Committees, to develop one of the first uniform statistical and financial reporting systems implemented by the title insurance industry. He earned his doctoral degree at the University of Chicago. The accompanying article is based on remarks presented during the 1993 ALTA Annual Convention.

offset, however, by the substantial increase in information that ratings will provide. In addition, the rating process will provide much needed informational stability. As ratings are released year after year, the consuming public will have access to a consistent source of objective professional analysis of the title insurance industry from a perspective which complements that both of stock market analysts and insurance regulators.

This stable baseline of information on the solidity of the industry will provide a better foundation for sound consumer judgments than can sporadic broadsides against the title business in the popular press.

Fidelity Reports Record Results

Fidelity National Financial, Inc., parent of Fidelity National Title Insurance Company and other companies, has reported record revenue and earnings for 1993.

Revenue for 1993 was $575,383,000–an increase of 46.7 percent over the previous year. Net earnings for 1993 were reported at $36,295,000–up 109.9 percent from the 1992 total.

Among 1993 highlights reported by the company were its acquisition of Security Title and Guaranty Company (now known as Fidelity National Title Insurance Company of New York), which contributed $42.9 million and $3.1 million, respectively, in revenue and pretax earnings for the year. The 1993 figures also reflect $113.3 million in revenue and $8.6 million in pretax earnings from Fidelity National Title Insurance Company of Pennsylvania, acquired in 1992 as Meridian Title Insurance Company.

SMS Providing HUD Appraisals

The Appraisal Division of Strategic Mortgage Services (SMS) has announced the signing of a national agreement in which it is serving as primary national contractor providing appraisals for the federal agency's property disposition group.

According to the announcement, SMS now is providing more extensive appraisal information for determining current market value of property acquired by HUD in exchange for mortgage insurance benefits upon default of FHA insured loans.

SMS is based in Costa Mesa, CA, and provides an array of real estate services including those for title plants and settlements.

NAMES IN THE NEWS


Green


Burton


Ramsey


Tosti


Tischler


Kilgallon


Huddleston


Gaffga

Thomas B. Green has been elected executive vice president of Chicago Title and Trust Company and Chicago Title Insurance Company, and continues as general counsel of both concerns and as secretary of Chicago Title and Trust. He was named senior vice president and general counsel of both companies in January, 1993.

Edson N. Burton, Jr., vice president, has been appointed corporate marketing director for Chicago Title Insurance. New Chicago Title Insurance vice presidents include **Albert E. Yorio**, divisional managing claims counsel and **George Michael Ramsey**, southwest area agency manager. **Donald Tosti** has been appointed


Prinz


Binegar


Ball


Gulick-Escoto


Lewis


Duff


Denslow


Harmon


Wood


Harley


Allensworth


Fitzpatrick


Latakos


McKinney


Rizzo


McCall


Matkaitis


Walker


Gatten


Baum


Johnston


Parsley

resident vice president and remains branch manager, Albany, NY.

Named assistant vice president for Chicago Title Insurance and remaining claims counsel, Orlando, FL, is **Barbara Burke**, who also continues in that position for its affiliates, Ticor Title Insurance Company and Security Union Title Insurance Company. **Jodie Schimke** is a new Chicago Title Insurance assistant vice president and remains escrow manager, Bellevue, WA.

In Illinois for Chicago Title Insurance, **Gus Abello** has been named manager, Skokie/Park Ridge, remaining assistant vice president, and **Larry Eisen** is newly designated as northwest area underwriter, Arlington Heights. **Robin Bradley** has been named Georgia agency manager, Atlanta; **James Pullman** is the new branch manager, Northfield, NJ, and **Cathy Jenkins** has been named office counsel, Baltimore. **Gregory Ryan** has been appointed mid-Atlantic area accounting officer for Chicago Title Insurance and Ticor Title, McLean, VA.

Jeffrey A. Tischler has been appointed senior vice president and chief financial officer, Commonwealth Land Title Insurance Company and Transamerica Title Insurance Company, Philadelphia. He has 16 years of diversified financial experience and most recently served as vice president-financial planning and analysis for Commonwealth's parent, Reliance Group Holdings, Inc.

Also in Philadelphia, **James E. Kilgallon** has been promoted to vice president and director of national title services. **Rodney Huddleston** has been promoted to vice president and San Mateo County manager for Commonwealth, Redwood City, CA.

Promoted to assistant vice president for Commonwealth are **Robert H. Gaffga**, assistant branch manager, Riverhead, NY, and **Gloria B. Prinz**, director of marketing, Fairfax, VA. **Gerry Binegar** has joined the company as sales representative, Indianapolis.

Larry Ball has been promoted to county manager for First American Title Insurance Company, Vancouver, WA, and **Annette L. Gulick-Escoto** has been promoted to Monterey County sales manager, Salinas, CA. **James Stipanovich** has been named president of the company's wholly owned subsidiary, Midland Title Security, Inc., Cleveland, replacing **Robert J. Swadey**, a founder of Midland who will continue as its chairman.

Jerald P. Lewis has been named president and chief executive officer of First American Trust Company, a wholly owned subsidiary of First American's parent, The First American Financial Corporation. **Thomas C. Casey** moves from president to vice chairman of the trust company, while **Charles A. Potter**, former chief executive officer, remains as chairman.

Robert W. Duff, First American Title senior vice president, has been named National Association of Homebuilders alternate director for the Building Industry Association of Southern California. He also was elected by the California Industry Building Association to the position of NAHB associate director for the sixth con secutive year, as well as being appointed to NAHB advisory council.

Lawyers Title Insurance Corporation has announced the election of three vice presidents at its Richmond, VA, headquarters. They are **Theodore N. Denslow**, assistant controller; **Steven W. Harmon**, computer operations center and information center; and **Bruce G. Wood**, financial and rate analyst.

Newly elected Lawyers Title vice presidents in Ohio are **Sean P. Harley**, regional counsel, Westerville, and **Deanna L. Allensworth**, branch manager, Sandusky.

Other new vice presidents for the company are **Sandra K. Fitzpatrick**, national division sales manager, Norwalk, CT; **Linda E. Latakos**, national division sales manager, Troy, MI; **James D. McKinney**, area counsel, Indianapolis; **Mark A. Rizzo**, branch manager and assistant secretary, Albuquerque; **J. Scott McCall**, also named area manager, Tampa, FL; **Gerald A. Matkaitis**, also named national division sales administrator, Chicago; **H. E. Walker, Jr.**, regional underwriting counsel, Dallas; **Gary L. Gatten**, also named area manager, Memphis; and **David A. Baum**, also named area manager and chief executive officer of the company's subsidiary, Lawyers Title of North Carolina, Inc., Charlotte, NC.

Mark C. Tarrant has been named branch manager for the company, Corpus Christi, TX.

William P. Johnston has been named senior vice president for Real Title Company , Inc., Lawyers Title subsidiary in Fairfax, VA

Sharon S. Parsley has been elected a Lawyers Title vice president; she concurrently serves as president of Genesis Data Systems, Inc., a company subsidiary based in Englewood, CO, which markets title and escrow software for the title industry.

Leanna Castle has been named branch manager for AmeriTitle, Mill Run, OH.

Steve Currit has been elected president, Strategic Mortgage Services (SMS) Appraisal Services Division, Costa Mesa, CA. He holds the MAI designation from The Appraisal Institute and is a Certified General Appraiser in California and Florida.

Bankruptcy Subject For CLTA Video

California Land Title Association has announced its production of an interactive video, "Bankruptcy Basics," which is designed for title company employees at the beginner level.

Areas covered in the video include jurisdiction and purpose, basic definitions, bankruptcy petition filing procedures, the bankruptcy estate, fraudulent transfers and preferences, and removal of property from the bankruptcy estate.

'The video also is suggested for customer service personnel, sales and marketing staff, and non-title employees.

Single copy price is $75.00, which also includes a workbook with supporting exercises, as well as shipping and handling. Additional information is available from CLTA, Box 13968, Sacramento, CA 95853, telephone 916-444-2647.

FANNIE MAE

continued from page 17

settlement agent will generate and transmit payoff transactions from a computer system. Operationally, this process should be simpler, quicker, and less costly than that used to cut and mail a payoff check.

- *Enhanced Release Tracking Capability* -- Through the automated payoff process, settlement agents will be notified when a servicer requests loan documents from a custodian. Also, settlement agents will be notified when the custodian retrieves the request from the network. These notifications will supply the settlement agent with an enhanced release tracking capability.

Additionally, the Windows-based software Fannie Mae plans to provide will be tailored to the automated payoff process. It will allow settlement agents to transmit data to, and retrieve data from, the network at the click of a mouse button.

Potential Benefits-- Title Companies

- *Enhanced Payoff Tracking Capability* – Currently, title companies are notified of payoff transactions after the fact. With the automated payoff system, they will be notified of payoff transactions coincident with the actual payoff. Title companies should be able to use this more timely and more certain information to reduce their risk of fraud.

- *Enhanced Release Tracking Capability* --Through the automated payoff process, title companies will be notified when a servicer requests loan documents from a custodian. Also, title companies will be notified when the custodian retrieves the request from the network. These notifications will supply the title company with an enhanced release tracking capability.

Potential Benefits--Servicers

- *Reduced Payoff Interest Expense*
- *Simplified Payoff Processing Operation*
- *Facilitated Payoff Demand Statement Requests and Responses*
- *Facilitated Request for Loan Documents*

Potential Benefits--Investors Including Fannie Mae

- *Reduced Payoff Interest Expense (for loans held in portfolio)*

Additionally, automation of the payment itself should provide benefits. Other industries, particularly the transportation industry, have experience using FEDI transactions to transfer funds. Trading partners in these industries have realized many benefits from FEDI:

- *Reduced Payoff Disbursement Costs (by eliminating paper checks and associated costs)*
- *Elimination of Check Fraud Risk*
- *Elimination of Bank Charges Associated with Checks*
- *Increased Certainty and Efficiency in Disbursement of Funds*
- *Increased Control of Funds*
- *Greater Accuracy in Payment Application by Payee*
- *Higher Levels of Cooperation between Trading Partners*
- *Improved Cash Management and Forecasting for Payee*
- *More Timely Resolution of Payment Discrepancies*
- *Improved Security through Acknowledgment System and Complete Audit Trail*

Most, if not all, of these benefits should also be observed when the automated payoff process is used to payoff a loan, since it will use FEDI transactions.

Issues

There are several issues related to the automated payoff process.

Float

There appear to be two separate issues regarding float. The first deals with the availability of funds brought to the closing table. If a check is brought to the closing table, will that check clear prior to settlement of the ACH transaction to deliver funds to the servicer? ACH transactions will clear at the opening of business on the first business day after submission. The current resolution to this issue will be to use the automated payoff process only in states that have some form of good funds legislation. During 1992, according to statistics provided by ALTA, over 80 percent of all title fees collected were from closings in states with good funds legislation. In these states, available funds, or at least funds whose availability is predictable, are required at closing. (See Figure 5)

The second issue has to do with the float income received by settlement agents on payoff checks. Currently, settlement agents benefit from the mail and clearing float on payoff checks sent to loan servicers. As of this writing, short term interest rates are still very low by historical standards, but the Fed has just raised the Fed Funds target rate for the first time in several years. Also, there is no guaranty that rates will remain at or near current levels.

The short term resolution to this issue will be to use the automated payoff process only in states that do not allow settlement agents to retain the float income on escrow deposits. In the longer term, an agreement will need to be reached between servicers and settlement agents regarding float.

Borrower Authority for PDS

Many servicers require the settlement agent to provide borrower authorization before preparing and returning a PDS letter. To use the automated payoff process, servicers will be asked to waive this requirement to facilitate automated requests for a PDS.

Multiple Accounts

The settlement agent will be able to designate more than one account for use with the automated payoff process. However, a settlement agent that chooses to set up more than one account will have to designate the account to be debited for each automated payoff transaction.

Release Processing Speed

As mentioned above, the automated payoff process will attempt to facilitate release processing and cut the time required to process a release. However, it should be noted that the pace of loan originations is expected to fall from recent record levels. A reduction in origination volumes should alleviate the pressure in the offices of servicers and custodians to process releases. Hopefully, this will allow them to react more quickly to new requests and to reduce backlogs.

Delivery of Good Funds to Closing

As mentioned above, the delivery of loan origination funds to the closing table is being investigated. Any automated delivery of funds to the closing table will be a delivery of available funds.

Returns

If insufficient funds are in the account designated in the automated payoff transaction, the ACH transaction will be returned. Also, if an account error is made in the automated payoff transaction, the ACH transaction may be returned. In the event of a return, the settlement agent will be permitted to modify and resubmit the automated payoff transaction, if necessary.

Standardization--Release Documents

Fannie Mae is not currently investigating the standardization of release documents. However, as mentioned above, we are planning to offer software to servicers that will facilitate selection and completion of the paper release document for any loan.

Security of Escrow Accounts

Escrow accounts set up for the automated payoff process will need to be authorized for ACH debits. The ACH system is very secure. However, unauthorized debits can occur. Within the automated payoff system, only settlement agents will be permitted to generate transactions to debit their own accounts. The automated payoff system will be able to handle the EDI debit authorization transaction that will prevent any unauthorized debits to an account. However, most banks cannot yet handle this transaction. You may want to contact your bank to determine if it can process this transaction (EDI 828 transaction). Another recommendation is to set up a special payoff debit account. Each day, only funds to be debited should be placed in the account. Also, as an additional safeguard, please remember that

ACH debits can be returned up to 24 hours aftersettlement.

The Importance of Reducing Time Frames

The importance of pursuing the benefits of technology for all businesses was driven home in a 1993 article in the Wall Street Journal: "...computers and telecommunications have collapsed time frames for everyone, most of all for those in business. Speed is the watchword of our time. If there's an element common to the faltering corporations and their leaders, it is that they could not or would not adjust to this new reality of collapsed time frames." The automated payoff process is a technology application that can reduce time frames within the mortgage payoff process.

Additionally, AT&T estimates that, "corporations using electronic funds transfers instead of paper payments save more than $1 per transaction." And further, "...by combining EFT and EDI, corporations can enjoy savings of $5 to $25 per transaction." Because the automated payoff process will use EDI transactions to transfer funds, the process should provide significant cost savings for all parties to a payoff transaction.

The automated payoff process can lead to increased productivity, time savings, and cost savings for all parties to a payoff transaction. It is likely that the process described above is only the first step toward a greatly enhanced, further automated, payoff process.

If you have questions or comments, please write: Gerald Flood, Fannie Mae, 4000 Wisconsin Ave., N.W., Washington, DC 20016.

NEW MEMBERS

WELCOME!

ALTA proudly welcomes its newest members and sincerely thanks those members responsible for their recruitment. The recruiters noted in parentheses have now qualified for membership in the ALTA Eagle's Club and are eligible for the "Recruiter of the Year" prize.

Active

Georgia

Northwest Georgia Title Co., Cartersville, GA.

Iowa

Madison County Abstract Co., Winterset, IA. (Recruited by Don Carlos Loan and Title Co., Greenfield, IA.)

Maine

Fidelity Title Co., Inc., Portland, ME. (Recruited by Peter Norden, First American Title Insurance Co., Boston, MA.)

Massachusetts

Monarch Title Corp., Boston, MA. (Recruited by Dan Ryan, Stewart Title Guaranty Co., Boston, MA.)

Michigan

Douglas Title Insurance Agency, Bloomfield Hills, MI. (Recruited by Sally Reader, American Title Co. of Livingston, Howell, MI.)

Missouri

Ste. Genevieve County Abstract Co., Inc., Ste. Genevieve, MO. (Recruited by Rich Curd and Doug Dolan, Capital Professional Insurance Managers, Chevy Chase, MD.)

New Jersey

Trans-County Title Agency, Inc., New Brunswick, NJ.

New York

Freehold Abstract Corp., Brooklyn, NY.

North Carolina

World Title, Statesville, NC. (Recruited by John Casbon, First American Title Insurance Co., New Orleans, LA.)

South Dakota

Campbell County Abstract & Title Co., Inc., Herreid, SD. (Recruited by Rich Curd and Doug Dolan, Capital Professional Insurance Managers, Chevy Chase, MD.)

Tennessee

Suburban Escrow Services, Inc., Knoxville, TN. (Recruited by Rich Curd and Doug Dolan, Capital Professional Insurance Managers, Chevy Chase, MD.)

Virginia

Amherst Title Insurance Agency, Amherst, VA. (Recruited by Jane Atkins, Lawyers Title Insurance Corp., Lynchburg, VA.)

Associate

California

RBJ Computer Systems, Inc., Pasadena, CA.

Florida

Jon Chassen, Kelley, Drye & Warren, Miami, FL. (Recruited by Mike Conway, First American Title Insurance Co., Tallahassee, FL.)

Georgia

Ernest C. Ramsay, Ramsay & Calloway, Atlanta, GA.

Vermont

Robert C. Roesler, Roesler, Whittlesey, Meekins & Amidon, Burlington, VT. (Recruited by Rich Patterson, Vermont Attorneys Title Insurance Corp., Burlington, VT.)

Title News Offering Classified Ads

Title News now offers "Marketplace," a classified advertising section for reaching the nationwide land title industry audience. The department features placements on situations wanted, help wanted, for sale and wanted to buy.

Basic format for the section is single column, text advertising placements. A box may be placed around an ad for an extra charge, and there is a discounted rate for three or more consecutive placements in the magazine. **Made-up** examples are shown below to provide an idea of style.

Rates for situations wanted or help wanted ads are $80 for first 50 words, $1 for each additional word, 130 words maximum (per insertion rate drops to $70 for first 50 words plus $1 for each additional word, for 3 or more consecutive placements). For sale or wanted to buy ads have a rate of $250 for 50 words, 130 words maximum (per insertion rate drops to $225 for 50 words, $1 for each additional word for 3 or more consecutive placements).

Placing a box around an ad costs an extra $20 per insertion for help wanted or situations wanted, $50 per insertion for sale or wanted to buy.

Those desiring to place classified advertising in the new "Marketplace" department should send ad copy and check made payable to American Land Title Association to "Marketplace–Title News" care of the Association at Suite 705, 1828 L Street, N. W., Washington, DC 20036.

Sample: Help Wanted
LEAD ABSTRACTER wanted for three-county Kansas operation. Must be certified or comparably qualified. Send resume to *Title News* Box H-326

Sample: Situations Wanted
COUNTY MANAGER for northwestern title underwriter branch seeks competitive opportunity with improved growth potential. Excellent fast track record, references. Write *Title News* Box E-418.

Sample: Sale
TITLE PLANT for sale, Florida location. Microfilm, documents and tract books cover county for over 50 years. Computerized posting. *Title News* Box S-135

Sample: Wanted to Buy
WANTED TO BUY: Used SOUNDEX system, needed by Indiana title agency. Particulars in first letter. *Title News* Box B-247.

CALENDAR OF MEETINGS

1994

April 11-13 **ALTA Mid-Year Convention**, Scottsdale Princess, Scottsdale, AZ

June 9 **ALTA Board of Governors**, Dallas, TX

September 21-24 **ALTA Annual Convention**, Walt Disney World Dolphin, Orlando, FL

1995

April 5 - 7 **ALTA Mid-Year Convention**, The Westin Resort, Hilton Head, SC

October 18-21 **ALTA Annual Convention**, Loews Anatole Hotel, Dallas, TX

1996

October 16-19 **ALTA Annual Convention**, Westin Century Plaza Hotel, Century City, CA

1994 AFFILIATED ASSOCIATION CONVENTIONS

April

21-23 **Oklahoma**, Marriott, Oklahoma City, OK

May

5-7 **Tennessee**, The Peabody Hotel, Memphis, TN

5-7 **Texas**, Hyatt River Center, San Antonio, TX

8-10 **Iowa**, Marriott, Des Moines, IA

12-14 **New Mexico**, Las Cruces Hilton, Las Cruces, NM

14-15 **Palmetto**, Omni, Charleston, SC

28-31 **New Jersey**, The Southampton Princess, Bermuda

31-June 3 **California**, Squaw Creek, Lake Tahoe, CA

June

2-4 **Colorado**, Hyatt Regency Beaver Creek, Avon, CO

9-10 **South Dakota**, Community Center, Sturgis, SD

10-12 **Virginia**, Boar's Head Inn, Charlottesville, VA

12-14 **Pennsylvania**, The Omni Sagamore Resort, Bolton Landing, NY

23-25 **Illinois**, Marriott City, St. Louis, MO

23-26 **New England**, Stowflake Resort, Stowe, VT

24-25 **Arkansas**, Holiday Inn West, Little Rock, AR

26-28 **Oregon**, Skamania Lodge, Stevenson, WA

July

7-9 **Utah**, Deer Valley Resort, Park City, UT

24-26 **Michigan**, Shanty Creek, Bellaire, MI

INDEX TO TITLE NEWS ADVERTISERS

Corporate Development Services .... Page 21, 23

Genesis .... cover 2

Landata, Inc. .... page 20

North American Title Organization .... page 16

Praeger Publishers .... page 25

SoftPro Corporation .... page 17

SMS Real Estate Information Services .... page 6

Sulcus 10

Title Agents of America .... page 4

Title Pac, Inc. .... cover 3

American
Land Title
Association
1828 L Street, N.W.
Washington, D.C. 20036