NOVEMBER-DECEMBER 1997

TITLE News

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AMERICAN LAND TITLE ASSOCIATION

Technology Forum & Expo

FEBRUARY 1-3, 1998 ORLANDO, FLORIDA

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—ALTA President Malcolm S. Morris

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TITLE *News*

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On the cover *Your competitors are out there—and are hungry. In this era of surging technology, what are the keys to survival in the title business? ALTA knows the questions—and will provide answers for a wide segment of the membership during its new Technology Forum & Expo February 1-3, in Orlando.* *For details, please turn to page 15.*

AND MORE...

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A MESSAGE FROM THE PRESIDENT-ELECT

Strategic Planning Goals Enable ALTA To Effectively Face A Changing Industry

It has been approximately two years since the ALTA Board undertook through a professional facilitator to adopt a process of strategic planning. Based upon a detailed system of information gathering from members and others, you will recall that the four goals briefly stated are (1) lobbying and government affairs, (2) education, (3) a database of information, and (4) technology. These four goals were rated by members as far above any other objectives of ALTA. Using these goals, the ALTA staff, working with the Board, has developed a detailed and systematic program of strategies and tactics.

Where are we, now that two years have passed since we undertook the process? The answer is that we could not have dealt with any of the problems facing the industry if we had not stopped two years ago and taken the time to look and see where we should be going and what issues ALTA should be emphasizing.

In regard to the first goal, the ALTA membership and staff have aggressively dealt with issues concerning bank powers legislation, the TOP program, and the future of RESPA, among others. We are also in the process of establishing a grassroots program, and facing the many governmental issues that seem to change daily.

Concerning education, ALTA continues to furnish top flight educational programs through its Education Committee and the Land Title Institute. This, of course, includes seminars, videos, and correspondence courses. However, recently recognizing trends in the industry, ALTA will introduce a new Technology Forum & Expo on an annual basis beginning next February 1-3 (see cover story, this issue of Title News), and is evaluating the possibility of a mid-management training program, particularly for small and medium size underwriters and agents.

The ALTA staff continues to maintain much financial and other information on many facets of our industry. One headquarters "data base" of information identified under the Strategic Plan as inadequate was an accurate, current compilation of state legislative, regulatory, custom and practice information on the title industry. A law firm which performs a similar national review for the mortgage banking industry was engaged to develop a prototype look at a single state, Pennsylvania. Under the leadership of Bill Corrigan of Penn Title and Mike Fromhold of First American, a highly informative look at that state's title insurance law and practice was produced. Using a standard format and similar local experts, it is expected to take a full year to complete the project. Testing to determine how much of a market there will be for a national (or regional) compilation of this kind will take place before the next phase is begun. It is expected that many law firms, law libraries, banks, life insurance companies, and mortgage bankers, as well as title insurers and others in our own industry, will be interested in this important new resource.

The goal which currently is in the limelight is technology. There is a new emphasis on technological training for our members as a result of fast-moving changes in the industry. During the recent ALTA Annual Convention, the Board agreed to replace the traditional Mid-Year Convention of our Association with the new ALTA Technology Forum & Expo, no later than the year 2000. As previously mentioned, the annual Forum & Expo will premiere in February.

Although the Mid-Year previously had been popular with our members for years, rapid changes in the title business have emphasized the need for an annual, technology-focused meeting. Also, the Mid-Year was not being attended as well as in the past. Both underwriter and agent members of our Association have expressed strong support for the introduction of an annual meeting centered on technology. Members of the Board realized that, in order to accomplish Goal 4 and contribute to Goal 2 in an important way, we need the Technology Forum & Expo.

All of the above could not have been accomplished if ALTA had lacked the foresight two years ago to stop and examine itself. The Association now is more focused on its objectives and more responsive to its members than ever before. Had we not paused for some self-examination and made decisions as to which direction we wanted ALTA to move, we would be unable to effectively face the sweeping changes that are now taking place throughout the industry.

I call upon all ALTA members to support our Association and its staff as we work to proactively face the future through the strategic planning process.

Kindest regards,

Joseph M. Parker, Jr.

Joseph M. Parker, Jr.

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Title Insurance Included in Rapidly Expanding One-Stop Shopping

By Dr. Weston E. Edwards

(Editor's note: The following represents the views of the author and not necessarily those of ALTA.)

Although one third or more of the top 100 realty firms that are not currently providing title insurance or closing services explained that they are prohibited by local law from doing so, most of them thought the prospects for change in the law permitting them to do so looked good, and as many again were either "actively considering" a relationship or said they were "receptive to an offer", as shown in the table below

The less large firms, although not as frequently blocked by law from providing title services, often were not interested, yet much more often were either "actively considering" or "receptive to an offer".

Combining these responses with an announced commitment by HFS to dramatically expand one-stop shopping for the homebuyer (to include title insurance and closing services) suggests that continued and probably more rapid growth will take place in major realty firms providing title insurance and closing services (see the following chart).

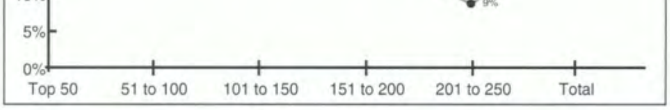
Lenders Efforts to End Run Realtors Have Been Unsuccessful

After the landmark Study of Realtor based services that WE&A released in 1995, the MBA launched their "SEE YOUR LENDER FIRST" promotional campaign aimed at trying to get homebuyers to choose their lender before going to their Realtor in order that lenders would be freed from their primary dependency on Realtor referrals. If lenders had been successful in this effort, it probably would have changed the focus of title insurance marketing as well.

In order to get a reliable measure of the effects of MBA's efforts, we not only interviewed the heads of the top 250 realty firms, and the heads of their mortgage operations and sometimes their title operations, but also several sales associates from multiple offices of the largest firms. Our findings supported by a number of charts and tables were essentially that lenders achieved a hollow victory:

- Homebuyers quite a bit more frequently are visiting with a lender before going to a Realtor.
- Yet these visits are generally quite brief, often involving simply a discussion of rates, about half the time a pre-qualification, but rarely (only 8%) a pre-approval.
- After a protracted period of working with the Realtor to find the right home, 86% of the sales associates indicated that the homebuyer followed their advice on their choice of a lender half or more of the time, and that level of influence had not changed significantly in the last year.

Realtors Who Financially Participate In Title Insurance, Closing or Escrow Services



Reasons For Not Participating in Title, Closing or Escrow

	TOP 50	51-100	101-150	151-200	201-250	TOTAL
Actively Considering at This Time	37%	6%	5%	11%	15%	14%
Receptive to Offers	5%	28%	35%	36%	46%	32%
Want to Master Lending First but then Most Interested	16%	17%	20%	18%	12%	16%
Prohibited by State Law:Actively Working to Change Law	11%	6%	5%	0%	0%	4%
Prospects of Change in Law Look Good	32%	28%	5%	7%	4%	14%
Not Interested at This Time	0%	17%	30%	29%	23%	21%

One-Stop-Shopping Is Anchored in Increased Profitability and Accelerated by HFS and the "One-Upmanship" Initiatives of Others

One of the most dramatic changes in the last two years has been the substantial increase in profitability of Realtor-based lending. As shown in the following table, profitable operations have approximately doubled, with two-thirds of the firms experiencing an equal or greater profit contribution from mortgage services per loan closed, as profits per transaction of their brokerage business.

What Are Your Reasons for Providing Title, Closing and Escrow Services
(Multiple Responses Accepted)

	Top 50	51-100	101-150	151-200	201-250	TOTAL
Improved Profit	100%	92%	88%	80%	100%	92%
Provide Profits	0%	0%	6%	0%	0%	2%
Competitive Advantage	0%	8%	6%	10%	17%	6%
Remain Compteitive	0%	8%	19%	10%	0%	8%
An Attractive Offer	0%	23%	6%	10%	0%	8%
Advantage of Deposits	0%	0%	0%	0%	0%	0%
Other	0%	0%	13%	0%	0%	3%

Title insurance and closing services profitability has also been sizable for many firms, but there are much greater differences state to state, and even county to county, than for mortgage services. In just a few markets, title insurance can be as or more profitable than mortgage lending. A more typical response was, "We are making on our title insurance operations well in excess of $1 million. It is yielding about $200-250 per loan–not nearly as much as they make in Minnesota and Texas where the rates are higher. The service includes closing and we close in the offices."

Profitable mortgage and title operations (and increasingly homeowners insurance and other personal lines) make it clear that one-stop shopping for the homebuyer has become a well established practice. Yet the investment by HFS of over $3 billion in a sizable brokerage, lending and relocation platform from which they plan to substantially expand one-stop shopping is assuredly going to accelerate this trend. A major area of the Study entails an analysis of current industry trends and what effect HFS is having and likely to have upon them. An indirect effect is that many of the large independent realty firms we visited had declined the opportunity of selling to HFS, and are now determined to demonstrate that they can provide an even better opportunity than HFS in giving the homebuyer a one-stop shopping opportunity.

When Side-By-Side, Title Generally Continues To Out Capture Lending Services

In our 1995 Study it was clear that title services had significantly higher capture rates than lending services. In 1997 the differences are less dramatic, but still noticeable as shown in the following table that cross tabulates these findings.

Some of the aberrations shown in the table can be explained by the length of time each service has been in operation. Most often Realtor-based lending has been initiated first, and then title insurance and closing services added later. However, there have been a few instances where title and/or closing services have been started first. The pronounced effect of time in operation upon the capture rate for lending services is demonstrated in the following table.

"Side Who Pays" Capture Rate of Title Insurance, Closing or Escrow Services vs. Mortgage Services Buy–Side Capture Rate

	Under 10%	10% to 19.90%	20% to 29.90%	30% to 39.90%	40% to 49.90%	TOTAL
Under 10%	33%	3%				4%
10% to 19.90 %						0%
20% to 29.90%	33%	3%	7%			6%
30% to 39;90%		31%	14%	50%	100%	27%
40% to 49.90%	33%	38%	29%			33%
50% to 59%		25%	43%			27%
60% to 69%			7%	50%		4%
70% to 79%						0%

Buy-Side Capture Rate vs. Time In the Point of Sale Lending Business

	Start-Up	1 Year	2 Years	3+ Years	TOTAL
Under 10%	67%	21%	16%	6%	14%
10% to 19.9%	17%	63%	67%	58%	60%
20% to 29.9%	17%	16%	18%	28%	22%
30% to 39.9%				6%	3%
40% to 49.9%				3%	1%
50% and Above					0%

A Strong Correlation Between Mortgage Capture Rates And Participating in Title and Closing Services Further Points Toward Greater Future Realty Title Participation

As shown in the following table, the participation rate of realty firms in title insurance and closing services is highly correlated with the capture rate of realty firms already providing lending services (note that these responses are only taken from firms that are providing mortgage services).

Realtors Who Financially Participate in Title Insurance, Closing or Escrow Services vs. Mortgage Buy-Side Capture

	Under 10%	10% to 19.90%	20% to 29.90%	30% to 39.90%	40% to 49.90%	TOTAL
Participate in Title Closing or Escrow Services						
	18%	40%	52%	40%	100%	41%
Don't Participate in Title, Closing or Escrow Services						
	82%	60%	48%	60%	0%	59%

As shown in the previous chart above, for the top 250 realty firms as a whole (with over 90% responding to this Study), the participation rate of realty firms in title insurance and closing services was only 31%. Yet, this latest table reveals that for firms providing mortgage services, the title participation rate is 41%. This suggests, and our Study responses definitely confirm, that a firm that has launched into mortgage lending is most likely striving to implement a one-stop-shopping strategy. Furthermore, the more successful realty firms have been in improving their mortgage capture rates, the more ready and anxious they are to also provide title insurance and closing services.

Softening this trend are growth pains in mortgage services that many realty firms are experiencing. In order to become profitable quickly quite a number of firms have taken steps that are limiting their future growth, and they are now struggling to get out of that these self limiting forces.

Profitable mortgage and title operations (and increasingly home owners insurance and other personal lines) make it clear that one-stop shopping for the home has become a well established practice.

The Exit of Some Realty Firms from Title Services Suggests that the Trend to One-Stop Shopping Will Not Be Universal

Several firms in the 1997 Study had been in the title business in the 1995 Study, but have since left. Generally, these were some of the least large firms who weren't doing well financially and didn't feel it was worth continuing their title insurance venture.

One of several case studies reported in the Study gives a typical description of their situation.

> "Yes, we had a title and closing relationship when we talked last. The relationship just wasn't very profitable and I found it to be more of a distraction than it was worth (financially). Our agreement came up for renewal after a couple of years, and I decided to back out of it. In some markets title and closing might make more financial sense, but the margins are so thin here, or at least they were for us, that it just didn't make sense for us. For us to re-enter, someone would have to prove to me that it could be a profitable venture, not in Minnesota or California, but here in my market."

Highlights of Many Other Issues Covered in the Study

This 250 page Study with over 80 charts and tables and numerous case studies covers nearly every aspect of what is succeeding and failing in the one-stop-shopping for the homebuyer arena. Highlights of other important issues are:

- Because of the sponsorship by four of the largest title insurers, title insurance and closing services received much greater attention than in the 1995 Study. Other important topics covered are the types of structures, goals, the incentives and inducements to office managers and sales associates shown both by size of firm and cross tabulated by capture rates.

- A major focus of the Study is on technology, and in some of our GSE sponsor visits that was viewed as one of the most valuable and notable parts of the Study. The most remarkable finding was that technology in 1995 had been viewed by many large broker/owners as a nightmare that was going to cause serious damage to the home brokerage business. Since then, realty firms have nearly all added web sites and become extremely active in technology. Now it is more often viewed as a strategic ally. The lending technology has also advanced dramatically over the past two years.

- Ten industry trends have been identified and in each case the current and expected effect of HFS is analyzed. One of the more unexpected trends is, "The apparent end of more than a 25-year cycle of constricting profit margins due to higher commission splits paid to real estate sales associates." Yet,offsetting this positive development are, "Affinity marketing programs that ultimately reduce commissions."

- Exactly how does the homebuyer select a lender? What is the trade-off between rate and service? How does behavior differ between first-time homebuyers, move-up buyers and well-to-do buyers? Lenders are hoping to avoid mortgages becoming retailed as commodities, and the Study gave support and encouragement to that goal. There is a parallel lesson for the title insurer because, just as the sales associate primarily differentiates competitive lenders by their quality of service, so they prefer title and closing services where they are confident the one in three closing that has a problem can and will be smoothly resolved.

- One of the great advantages of this 1997 Study was having the 1995 in-depth results as a baseline for comparison in studying the "learning curve" or "developmental cycle" of these Realtor-based services. It appears that the title business is following a similar developmental cycle to that of the lending business. Real breakthroughs are achievable when brokerage, lending and title managers all view each other as equal major contributors and open-mindedly consider how they can best help each other to be more successful.

- RESPA compliance was examined and found to be generally improved (some markets have not), largely because it was found to be uneconomic to try to buy business.

- In addition to lending and title and closing services, the Study also examined other homebuyer services and found a dramatic rise in homeowners insurance and other personal lines. Home warranty, security systems, home remodeling and many other services are still in the experimental stage. Yet, HFS is determined to make them work, and we found promising use of transaction coordinators to aid in the distribution and marketing of these other services. transaction coordinators (sometimes called conveyancers or closing secretaries) were sometimes very important in the marketing and providing of title insurance and closing services as well.

The referenced new study of the top 250 residential brokerage realty firms was sponsored in part by four large title insurance companies. For an article by Dr. Edwards on his earlier study of large Realtor participation in point-of-sale mortgage lending and their focus on title insurance and closing services, please see the September-October, 1995, issue of Title News. Dr. Edwards has spent more than 25 years building and managing residential brokerage, relocation, title insurance and mortgage finance businesses. For the past nine years, he has operated his own consulting firm that provides assistance to industry leaders in all aspects of the home buying process. In 1981-82, he founded and has since chaired Housing Roundtable, a policy advisory group committed to removing obstacles to a healthy housing market, to encouraging home ownership, and to the attainment of affordable housing. The author can be contacted at Weston Edwards & Associates, 361 Forest Avenue, Suite 205, Laguna Beach, CA 92651 (telephone 714-376-0590.

Meaningful Evaluation of Title Insurer Capital Adequacy–The First Step

By Keith M. Buckley, CFA

As a part of its evaluation of a title insurer's financial strength and claims paying ability, Duff & Phelps Credit Rating Co. (DCR) makes a qualitative assessment of the insurer's capital adequacy on a risk adjusted basis. To assist in this qualitative assessment, and to support the broader ratings process, DCR has developed a quantitative model that provides the initial phase in the subjective evaluation of capital adequacy.

DCR recognizes that the title insurance industry currently does not have risk based capital standards imposed on it by regulators, nor has the industry operated historically with sophisticated benchmarks to measure capital strength. Therefore, DCR views the introduction of its quantitative risk adjusted capital (RAC) ratio as the first step in allowing DCR and the industry itself to evaluate capital adequacy of title insurers in a meaningful, systematic fashion.

The RAC will be just one of the many elements that DCR considers in forming a title insurer's claims paying ability rating. Other elements considered in the rating that are not addressed in the RAC formula include management quality, competitive positioning, growth strategies, profitability, liquidity and financial flexibility. Also critical to the effective use of the RAC is its interpretation, including an all important subjective assessment of management's abilities to control the risk exposures reflected in the RAC, and to avoid or minimize loss situations. *Thus, two insurers with the same RAC score may have vastly different DCR claims paying ability ratings.*

Ratio Defined

The RAC ratio is defined as follows:

$$\frac{\text{Adjusted Policyholders' Surplus}}{\text{Required Policyholders' Surplus}}$$

Adjusted Policyholders Surplus (APS) is defined as statutory policyholders' surplus as presented in an insurer's Form 9, adjusted by DCR to account for the claim and statutory premium reserves on an actuarial as opposed to formula basis.

DCR believes that...the title industry, in aggregate, is well capitalized.

Required Policyholders' Surplus (RPS) represent's DCR's view of the amount of APS required by a title insurer to support the various risks that it is exposed to. Charges are made for investment and asset risks, credit risks, adverse claim development risks, large loss and ceded reinsurance risks, expense leveraging and agency risks (including defalcations), and business concentration risks. A covariance adjustment is made against the individual risk components, recognizing that all risks would not be expected to affect an insurer simultaneously.

The RAC is calculated on a company specific basis, or a consolidated group basis, depending on the ratings assumptions used by DCR for each specific group. If DCR's ratings assumption is that affiliates in a group will fully support each other, the RAC and the rating will be based on a consolidated balance sheet including all majority owned title insurance companies (minority owned insurance companies in which control exists may or may not be consolidated, depending on DCR's evaluation on a case by case basis). However, if DCR is concerned that a "group" ratings approach is not appropriate for certain groups, both ratings and RAC calculations will be made on a company by company basis.

As will be detailed later in this report, the aggregate RAC score for the seven national groups, and largest regional insurers is approximately 187%. DCR believes that this implies that the title industry, in aggregate, is reasonably capitalized. The industry's risk adjusted capital level is also commensurate with DCR's median title insurer claims paying ability rating of "A" (Single-A), which implies that, in aggregate, the industry's financial strength is high.

The author is group vice president for Duff & Phelps Credit Rating Co., with offices in Chicago.

Derivation of APS

To derive APS, DCR adjusts an insurer's reported case loss and ALAE reserves (Liabilities, line 1) and the formula-based statutory premium reserve (Liabilities, line 3) to substitute DCR's best estimate of required ultimate loss and LAE reserves (including IBNR) as determined on an actuarial basis. Policyholders surplus is adjusted for the difference between actuarial reserves and statutory balance sheet reserves.

In deriving this adjustment, DCR takes two approaches:

- Actuary Report: DCR will review the reserve reports prepared by the insurer's actuaries to support Schedule P and GAAP reporting requirements. DCR will typically adjust reserves to the actuary's point estimate. DCR will expect the point estimate to include provisions for case and IBNR losses, as well as ALAE, ULAE (beginning at 12/31/96), "jumbo" claims and defalcations. Reserves will be adjusted on an undiscounted basis (a detailed discussion of the theory of which is available upon request). If any of the noted reserving components are missing from the analysis, DCR may instead select the high end of the actuary's range, or make an appropriate adjustment to the point estimate based on its own analysis for the missing item.
- Schedule P Analysis: DCR will also perform its own assessment of the insurer's loss reserves based on Schedule P data and company supplied data. DCR's analysis will include standard actuarial techniques, including "squaring of the triangle" approaches, as well as tradi-

tional methods used by the industry to evaluate reserve adequacy such as the reserves to paids ratio.

Reserve deficiencies are tax effected at an assumed 25% tax rate, and redundancies are tax effected at a 20% tax rate. The rates represent an estimate of the present value of a 35% tax rate applied against future tax benefits and expenses that will be incurred as actual losses emerge. DCR assumes that given the nature of SPR amortization schedules compared to claim emergence, deficiencies will generally be recognized sooner than redundancies.

In future versions of the RAC, DCR may also adjust APS for the market value of title plants or other material assets where differences between market and book value could be significant. However, DCR first needs to get comfortable that there are reliable and consistent valuation methods available to support such adjustments.

Calculation Of RPS

A title insurer's RPS is calculated based on an assessment of capital required to protect policyholders from the following risks: investment, credit, adverse claim development, large loss and ceded reinsurance, expense leveraging and agency risks, and business concentrations.

Investment Risk And Other Asset Charges

Investment risk charges are intended to capture an insurer's credit, market volatility, and interest rate risks. Charges are also made against large issuer concentrations, real estate-related investments, affiliated holdings and other assets. In many cases, the charges are similar to those used by the National Association of Insurance Commissioners (NAIC) in its risk-based capital (RBC) formula for property/casualty insurers.

Credit Risk (R1): The following charges apply to non-affiliated, non-real estate-related fixed income investments:

Bonds	
US Government	0.00%
NAIC 1	0.30
NAIC 2	1.00
NAIC 3	2.00
NAIC 4	4.50
NAIC 5	10.00
NAIC 6	30.00
Preferred Stock	10.00
Collateral Loans	5.00
Other	0.00 to 30.00% per DCR analysis

Real Estate-Related Investment Risk (R2): The following charges apply to an insurer's real estate-related investment holdings:

Mortgage Loans	5.00
Real Estate	10.00

The charge...reflects DCR's belief that, despite being a very long-tail line, title insurance is a less risky line of business than most property/casualty lines.

Interest Rate Risk (R3): The following charges are made to recognize that changes in the market value of fixed income securities can occur with changes in interest rates. Typically, short-term investments such as commercial paper have very minor price sensitivity to interest rate movements, and are assessed a very low charge compared to longer maturing instruments that can have significant price sensitivity. The charges are not intended to capture liquidity risk, or the need to sell such investments to meet claims. This risk is evaluated by DCR outside of the RAC context. The charges apply to bonds and short-term investments, and are made in addition to those above:

Maturing under 1 year	0.50%
Maturing 1-5 years	3.00
Maturing 5-10 years	5.50
Maturing 10-20 years	8.00
Maturing Over 20 years	10.00

Market Volatility Risk (R4): The following charge applies to an insurer's non-affiliated common stock holdings:

Common Stock	15.00%

Issuer Concentration Risk (R5): A charge of 100% is made against the portion of any single issuer investment concentration that exceeds 5% of stated policyholders' surplus. Federal government issues, issues of government agencies backed by the federal government, and diversified mutual fund investments are excluded from this charge. Under this method, charges as a percent of carrying value increase gradually at larger invested amounts. For example, if surplus is $100 million, a charge is made against single investments greater than $5 million. A $6 million investment is assessed $1 million (100% of $6MM minus $5MM), or 17% of carrying value ($1MM divided by $6MM), and a $10 million investment is assessed $5 million, or 50% of carrying value ($5MM divided by $10MM).

Affiliated Investment Risk (R6): Affiliated investments are assessed a charge of 30%, with the exception of affiliated title agencies, which are assessed 5% if majority owned and 15% if minority owned. The special treatment for title agencies recognizes that the difference between holding a subsidiary title agency and collapsing the agency into a branch is largely a matter of form over substance.

In future versions of the RAC, DCR expects to further differentiate among classes of affiliated investments, including entities holding title plants, or single purpose investment corporations.

Other/Miscellaneous Assets (R7): Other assets, excluding title plants (which receive no asset-based charge) and receivable balances (as discussed below) are charged 15%.

Credit Risk Charges (R8)

The following charges apply to various receivable balances to reflect credit risk exposures:

Title insurance premiums fees	5.00%
Funds held by reinsurers	10.00%
Reinsurance recoverables	10.00%
Federal income taxes	0.50%
Interest/dividends due	5.00%
Receivable from parents/subs	5.00%

Adverse Claim Development Charges (R9)

DCR assesses a charge of 25% against the insurer's adjusted loss and LAE reserves to capture surplus necessary to absorb the potential for adverse claim development. By applying the charge to adjusted reserves, as opposed to stated reserves, the RAC formula does not overpenalize companies with redundancies or undercharge companies with reserve deficiencies. To the extent an insurer has ceded any of its statutory loss or SPR reserves to a reinsurer, a 10% charge is made against these ceded balances to reflect future credit risk exposures.

The charge of 25% reflects DCR's belief that, despite being a very long-tail line, title insurance is a less risky line of business than most property/casualty lines. This is due, in part, to title insurance covering events that have already occurred. The 25% charge applied by DCR to title reserves compares to base charges of 27.5% used by the NAIC for short-tail property/casualty lines such as homeowners and farmowners insurance, and over 50% used for certain long-tail liability lines.

Large Loss And Ceded Reinsurance Charges (R10)

DCR believes that title insurers must maintain capital to protect against large single risk losses, and applies a series of calculations against gross limits written and excess layer net retentions after ceded reinsurance to determine an appropriate RAC charge.

DCR recognizes that full limits losses on large transactions are very rare. Therefore, for RAC purposes, DCR assumes that the likelihood of a title insurer incurring a full limits loss declines as the absolute size of the transaction increases. Accordingly, DCR imposes higher incremental RAC charges at smaller absolute limits, and lower charges at higher "layers" of retention.

DCR does not include a charge in R10 for the primary $1 million layer of coverage written. This is on the assumption that R10 should only provide for "severity" losses that are not easily reserved for. Losses in the first $1 million layer are "frequency" losses that are more easily considered in establishing actuarially-based loss reserves, and are thus already captured in R9.

For RAC purposes, DCR provides only partial credit for the ceded portion of an insurer's gross limit reflecting credit risks associated with ultimate collectability. At higher layers, title insurers usually reinsure a portion of the risk so as to maintain a net retention at levels below regulatory requirements or self imposed criteria. Most reinsurance is purchased from other title insurers on a facultative basis, though capacity is also available from sources outside the primary industry, including Lloyd's and Capital Re. The credits decrease at higher layers reflecting heightened uncertainty of reinsurers to respond to a very large claim. The credits are also lower at higher layers for reinsurance purchased from other title insurers as opposed to outside sources.

The following charges are applied against the insurer's 10 largest gross insured values (direct and assumed) written in each of the past five years (50 policies in all). A simple average of these totals is then taken to arrive at the R10 charge. By averaging in this way, DCR hopes to differentiate between companies that have written several large policies versus those writing relatively few.

Gross Layer	Ceded Credits Indust.	Ceded Credits Non-Ind.	Adjusted Net RAC
$0-1MM	—	—	None
$1-5MM	97%	97%	1.5X
$5-20MM	96%	96%	1.1X
$20-50MM	95%	95%	0.75X
$50-100MM	85%	95%	0.35X
Over $100MM	80%	95%	0.15X

- *Gross Layer* represents the total face amount of the policies on a single risk written before reinsurance, broken down by successive excess layer.
- *Ceded Credits* are applied to the portion of each layer ceded to a reinsurer to determine how much of the reinsurance will be considered in calculating the net retention. Different credits apply by layer, and whether reinsurance was purchased inside or outside of the primary title insurance industry.
- *Adjusted Net RAC* represents the required capital in each layer. An adjusted net retention is first calculated by subtracting reinsurance, after application of the ceded credits, from the gross amount of insurance in the layer. For example, if $5 million of the $5-20 million layer on a $50 million policy was ceded to industry reinsurers, the actual net retention on the layer would be $10 million (i.e. the gross limit of $15 million minus $5 million ceded). *The adjusted net retention* would be $10.2 million since only 96% of the ceded $5 million would be given credit (i.e. $15 million gross limit minus credited reinsurance of $4.8 million equals $10.2 million, where credited reinsurance equals $5 million times 96%). RAC is calculated by applying the charges in the third column above against the adjusted net retention in the layer. In the same example, the RAC requirement for the $5-20 million layer would be $11.2 million, or 1.1X the adjusted net retention of $10.2 million.

Losses to a title insurer can occur from an inability to reduce expenses enough to maintain a positive underwriting margin.

Expense Leverage And Agency Risk Charges (R11)

A primary capital and earnings risk facing title insurers relates to a decline in real estate activity and title revenues. Losses to a title insurer can occur from an inability to reduce expense quickly enough to maintain a positive underwriting margin. Losses from agents due to defalcations, poor underwriting and other areas also tend to peak during down real estate cycles when agents come under financial pressures. To address these risks, DCR believes that a title insurer needs to maintain adequate capital relative to the volume of business that it transacts, and the related expense infrastructure in place to support its volume. The higher the expense infrastructure relative to capital, the higher the likelihood that capital will be impacted during a down period given the higher "expense leverage" implied. Similarly, the more business placed though agents relative to capital, the more likely that, if a series of defalcations or other losses occur, they will have an impact on capital.

DCR assesses a RAC charge of 12% of an insurer's current year operating expenses to reflect these risks. The 12% charge applied against pure fixed costs (such as title plant maintenance) and semi-fixed costs (such as salaried payroll) reflect the expense leveraging aspect of the charge. The 12% charge applied to agent's commissions reflects the defalcation and other agency-related risks.

In future versions of the RAC, DCR will consider varying the charges based on whether premium is derived from all inclusive or risk rate states.

Business Concentration Charge (R12)

DCR recognizes that title insurance is a local business requiring strong local market shares and local market knowledge to succeed. However, DCR also recognizes that real estate cycles vary by region and state, and that expertise and presence in several regions and states can lessen the impact of local cycles through diversification. Accordingly, DCR assesses a business concentration charge of 3% against direct premiums written and other title income in any state in which the state's premiums and other revenues exceed 10% of the total for all states.

Covariance Adjustment

Though a title insurer is exposed to a number of risks giving rise to RPS charges, DCR recognizes that it is highly unlikely that an insurer will be hit with losses from each area simultaneously. Accordingly, in summing the R1-R12 charges, DCR makes a covariance adjustment, as follows:

RPS = the square root of the sum of:
R1^2 + (R2+R3+R11)^2 + R4^2 + R5^2
R6^2 + R7^2 + R8^2 + R9^2 + R10^2
+ R12^2

The R2 and R3 charges for real estate-related investments and interest rate investment risk, and the R11 charge for expense and defalcation risks are summed before calculating the covariance. This is in recognition that each of these risk components tend to be affected by the same macro economic events (such as a rise in interest rates that leads to a decline in real estate activity), and that there is no real diversification benefit in spreading exposures among these risk categories.

RAC Analysis and Comparisons

The following details the aggregate title industry RAC as of yearend 1996, based on a summation of individual R1-R12 values for the seven national title groups and the regional title insurers rated by DCR.

The title industry's aggregate RAC is 187%. DCR believes that this implies that the title industry, in aggregate, is well capitalized. The industry's risk adjusted capital level is also commensurate with DCR's median title insurer claims paying ability rating of "A" (Single-A), which implies "high" claims paying ability.

As would be expected, the total amount of RPS (required policyholders surplus) is dominated by the charges for reserve development (R9), large losses (R10) and expense/agency risks (R11).

The dominance of R11 is consistent with DCR's qualitative views on capital adequacy, in that the primary risk facing most

Continued on page36

The Competition is Hungry...

AMERICAN LAND TITLE ASSOCIATION

Technology Forum & Expo

FEBRUARY 1-3, 1998 ORLANDO, FLORIDA

How Will You Survive?

By Stephen M. Evans
ALTA Land Title Systems Committee Chair
President, Evans Title Companies, Inc.

"If you plan to be in the title business in five years, you'd better be in Orlando in February!" (From remarks by ALTA President Malcolm S. Morris shortly after his installation during the 1997 ALTA Annual Convention)

So what's new under the Microsoft Sun? Still enjoying your morning Java with the Wall Street Journal and CNN? Or is it http://www.prnewswire.com these days? The world is changing quickly, and you've been wondering how to ensure your company's survival. How will you keep pace with your competition and customers—not to mention customers who have become the competition? Is technology the answer? Where do you get accurate and reliable information? You've been asking 3brings it all together for you at the new ALTA Technology Forum & Expo, February 1-3, 1998, at Disney's Coronado Springs Resort, within the WALT DISNEY WORLD Resort.

The Forum & Expo is the one meeting specifically designed to help you select technology solutions to meet your business needs. Consider the benefits:

- Education during three general sessions and 22 concurrent sessions organized into five educational tracks (see following page)
- Details on industry trends and initiatives straight from the source
- Consultation with technology developers and experts
- Information on ancillary services and strategic partnerships
- Networking in the Expo Hall during Expo hours and social functions

The Forum & Expo's educational program delivers information from the source. Robert Cringely, a best-selling author who may be better known for his hit PBS miniseries, "Triumph of the Nerds," begins the program Sunday afternoon, February 1, with his insights on managing and using the overwhelming amount of technology information that is available today. A Kick-Off Reception follows to accompany the opening of the Expo Hall. On Monday morning, Dr. Leilani E. Allen, principal consultant to the MERS project and regular instructor for the MBA School of Mortgage Banking, will share her views on strategic technology planning in our industry and show you how to apply the proper principles to managing your business systems.

Twenty-two concurrent educational sessions planned for Monday and Tuesday morning have been organized into educational tracks to help you identify sessions that will benefit you the most (see following page). Each track includes sessions at levels from beginner to advanced so there's something for everyone. Communications Technology, for example, touches every title operation with a telephone or fax machine, and, even if you aren't ready for advanced Electronic Commerce just yet, you'll be able to explore all the possibilities with Electronic Commerce 101. Vendors in the Expo Hall will be providing valuable education and information as well. Quick demonstrations of technology innovations for the title operation will take place in the Expo Hall Classroom throughout the conference. Expo Sessions are scheduled for Monday afternoon and will give you a chance to see full-length presentations by various Expo participants.

You probably know what some title professionals think of lender or secondary market initiatives. At the Forum & Expo,

The Forum & Expo's educational program delivers information from the source

you'll hear from the developers and decision-makers directly, have an opportunity to ask questions, talk with colleagues, and put the pieces together to develop your own opinion. Technical and business experts from underwriter operations, title-specific software developers, Fannie, Freddie, EDS, ACDS, MERS and others are expected to discuss today's business challenges and the technological solutions currently available and in development. Will you need Windows 95 to prepare for the future and benefit from these trends? What about that stable, reliable VAX environment you've grown so fond of—should you phase it out in favor of NT? Has the Internet eclipsed EDI? Title professionals and consultants will also be part of the program, sharing the title perspective as you learn how to strategically position your business systems to take maximum advantage of tomorrow's technology solutions.

Technical experts in the Expo Hall will help you evaluate your company's needs and determine how technology can improve your bottom line. Will the "Year 2000" problem force you to budget for major system purchases next year? Will you buy a new system or upgrade your current applications? Is now the right time to implement imaging for your plant operation? The Forum & Expo is your opportunity to find the answers to your technology questions and concerns—talk with technical consultants to improve your chances for continued success and learn how proper planning, training, and vendor support can ease system installations and improvements.

Positioning your business for success and survival is a challenge for every title professional in today's marketplace. Ancillary services and strategic partnerships have provided the answer for some title agencie—would your business benefit? Underwriter personnel from Lawyers Title's Single Source, Stewart Title's family of services, and other underwriter organizations will be on hand in the Expo hall to demonstrate how adding appraisal, flood certification, home inspection, tax services, credit services, and other related activities to your portfolio of products can boost customer retention and recruitment.

O.K.—let's not forget the destination information. Florida's warm weather in early February sounds like a good idea, doesn't it? And why not WALT DISNEY WORLD? They don't call it the happiest place on earth without a good reason. The twenty-fifth Anniversary Celebration ends on Saturday, January 31, so your Saturday stay-over will not only net you a discounted airfare, but also puts you in perfect position to see Cinderella's Castle transformed into a fantasy birthday cake before the festivities are over.

Disney's Coronado Springs Resort is within the WALT DISNEY WORLD Resort, near Epcot and the Disney-MGM Studios Theme Park. Convenient transportation from Disney's Coronado Springs Resort takes you to all that the WALT DISNEY WORLD Resort has to offer. Room rates are $115. The ALTA Technology Forum & Expo rate applies from Wednesday, January 28 to Thursday, February 5, 1998.

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Concurrent Educational Sessions—ALTA Technology Forum & Expo

Educational Tracks	Monday 10:15 a.m	Monday 11:30 a.m.	Tuesday 8:30 a.m.	Tuesday 9:45 a.m.
I.T. Planning & Principles	TechnoTitle2020: Future Focus on Tomorrow's Customers	Selecting Order & Closing Software	Workflow Analysis Clearing The Clog	Strategic Technology Planning
Electronic Commerce	EDI & Data Mapping	Implementing EDI	Will VANs Survive the Internet?	Making the Title Industry Self-serve
Communications Technology	FAX FAQs Increase Customer Satisfaction With Fax Technologies	Voice Mail and E-mail	Getting Value From the Internet	Keeping up with Field Personnel
Industry Trends	ACDS Preparation & Implementation	MERS Update	MBA Initiatives	Fannie/Freddie Update
Technology and Your Staff	Plugged In: How Techno Pros Stay Informed	Choosing a Consultant	Hiring a System Administrator	Training Your Staff For Change
Bonus Sessions			Year 2000 Preparations	Creating Success by Competitor Collaboration

ACDS Offers Revolutionary Opportunity for Electronic Linkage

By Christa Sladden
ACDS Marketing/Strategy

Editor's note:
This is the last in a three-part series, in which the author shares with Title News readers a perspective on this initiative by EDS to bring reality to a paperless closing process. For the first two installments, see the respective July-August (page 25) and September-October (page 21) editions of the magazine.

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At EDS, we see an endless number of possibilities for the future of the real estate finance industry. And, while it's true that our industry still operates much the same way as it has for decades, we now have the unique opportunity to revolutionize it as never before by:

- Exploring ways to convert from cumbersome, paper-driven processes
- Electronically networking with the diverse industry players--lenders, Realtors, title insurers, closing agents, investors, and so on

Indeed, today's technology is challenging the notion of why our industry needs paper documentation and the innumerable, often incompatible processes and systems which fragment our environment. EDS believes that a single, fully electronic, industry-wide process is in our future and, with its Accelerated Closing and Delivery Services (ACDS) initiative, it takes a leap in this direction.

ACDS is a series of state-of-the-art electronic document management and network communication services designed to replace the current paper-based real estate finance processes. ACDS accomplishes this by providing for legally binding electronic mortgage instruments and linking industry players together through a secure industry-wide electronic network.

Real estate finance industry processes historically have been tied to paper because of age-old statutes requiring:

- Written, signed/notarized documents to legally transfer land and bind a borrower to a mortgage loan transaction
- A trail evidencing creation of and challenges made to these documents

ACDS offers an electronic means of complying with these statutes through its

- Secure, centralized image repository
- Leading edge cryptography technologies (the same used by the U. S. military)

With ACDS, the various players authorized by the lender to contribute original mortgage documents to the closing of a mortgage loan (1) insert a security card (token) containing their identification (digital signature) into their ACDS-compliant, networked, desktop PC with Windows (t) '95 or NT, and (2) submit scanned or faxed original mortgage documents to the ACDS repository. Players also may transfer a print file containing the documents to ACDS. When a player moves a document to the repository, ACDS

The author is the industry and marketing specialist for the EDS Real Estate and Mortgage Industry Division's Accelerated Closing and Delivery Services (ACDS) initiative, with offices in Plano, TX. Prior to joining EDS earlier this year, she spent 22 years in mortgage banking and information systems, most recently creating and leading business design for FiServ's bankruptcy and loan processing application. In addition, she held a variety of operational management positions with Lomas Mortgage USA and Lomas Information Systems. Her background in mortgage banking focuses on loan setup, customer service, escrow administration, payment media and adjustable rate mortgage loan servicing. She is regarded as an industry expert in loan servicing.

- Checks the identity of the ACDS participant submitting the document to verify authorization
- Seals each document to protect it against change and tie the submitter's identification to it

For documents requiring a trail of evidence, ACDS also

- Signs through affixing of an encrypted version of the submitter's digital signature
- Authenticates content to ensure the document really is the one executed
- Appends a date and time stamp

These features ensure a verifiable chain of evidence for the life of each such document, tracking

- Creation, submission and storage on the repository
- Any authorized revisions
- Retrievals
- Any transfer of ownership
- Destruction

Once in the ACDS repository, electronic documents can be viewed with or without a token.

EDS provides the complete infrastructure for the industry's application of ACDS, right down to the trusted Certification Authority, the entity with which subscribers to ACDS register their employees for

- A digital signature and activation of a token
- Deactivation of tokens in the event of loss or employment termination

ACDS technology affords the industry significant benefits. From a risk management perspective, through its chain of evidence technology, ACDS

- Preserves the legality, negotiability and transferability of its electronic documents, thereby ensuring their marketability in the secondary market

- Allows for tracking of fraudulent activity and error sources

There are also many productivity and other cost savings associated with ACDS. Storage of documents in one central, secured location:

- Eliminates confusion as to the whereabouts of documents, the risk of multiple document copies, and updating other than the most recent version

- Improvement of customer service by allowing quicker access to and maintenance of accurate documentation

ACDS automated quality checks for missing or incomplete documents and automated preparation of review packages eliminates manual effort. As well, electronic

- Shipping of documents to/from loan process participants allows for same day delivery and reduces mailing, shipping or courier costs

- Storage reduces the space and facilities required for maintaining documents

Furthermore, simultaneous viewing of electronic documents eliminates stops and starts in the loan process and expedites closings as sellers and buyers are able to preview documents.

By making the EDS vision for a single, industry-wide, fully electronic process a reality, ACDS will catapault the industry into the exploding electronic commerce era.

(For more information, call the author at 800-433-4055.)

Epley President In Arkansas

Charles Epley has been elected president of the Arkansas Land Title Association. He is president of Carroll County Abstract and Title Company, Eureka Springs.

Epley

Other newly-elected officers of the association include, vice president–Gregg Wall, Tucker Abstract, Bentonville; secretary-treasurer--Jeremy Thornton, Mena Title, Mena; directors–Mike Pryor, Markle Northeast, Jonesboro, along with James Batts, McClure Title, Malvern, and Marlene Adkison, Southwest Title, Texarkana, and Glen McMullin, Independence County Abstract, Batesville.

LeRoy King Dies In Philadelphia

Services were in Bala Cynwyd, PA, for LeRoy F. King, 69, a founding member and pastchairman of the ALTA Underwriter Research Subcommittee, who died at a Philadelphia hospital shortly after becoming ill early in October.

He was general manager of the Title Insurance Rating Bureau of Pennsylvania, and was retired as senior vice president-finance and administration, Commonwealth Land Title Insurance Company. His title industry service included longtime membership on the ALTA Liaison Committee with the National Association of Insurance Commissioners.

Earlier, he also had served as executive vice president, Pennsylvania Land Title Association. He was a recipient of PLTA's James G. Schmidt Distinguished Service Award.

A lifelong title professional, he began working in the industry at the age of 14, later financing his education at the Wharton School, University of Pennsylvania, as a title employee. A tour of duty in Army intelligence–when he was stationed in Germany– was the only interruption in his title career, his fluency in Russian proving to be an important military asset.

Survivors include his wife, Rosemarie King, and two daughters.

The family suggests memorial contributions to St. Matthias Church, 128 Bryn Mawr Avenue, Bala Cynwyd, PA 19004.

Major Addition By First American

The First American Financial Corporation, parent of First American Title Insurance Company, and Experian Group have announced the signing of a letter of intent to merge their respective real estate information subsidiaries into a new company described as the nation's largest and most diverse provider of information technology and decision support solutions for the mortgage and real estate industries.

According to the announcement, the new company will have annual revenues of more than $450 million and a combined staff of 4,000.

First American Financial will own 80 percent of the new company, and Experian 20 percent. Other businesses of the two companies, including Experian's credit division and First American Title, are not part of the transaction. The venture will combine Experian's property data and title information services with all of First American Financial's real estate information businesses with the exception of Excelis, Inc., the mortgage loan servicing software division.

Stewart Program Upgrade Complete

Stewart Title's award winning Virtual Underwriter program has been upgraded and released. State specific underwriting manual supplements, standard exceptions and business practices are included.

Virtual Underwriter 2.0 has incorporated more powerful search engines, new and expanded state-specific underwriting information and numerous time saving devices. According to the announcement, its desktop version is equivalent to 6,500 hard copy pages, has additional state specific and international information, has the number of hypertex links increased to more than 100,000 from approximately 30,000 in the original version, and has more than 150 new documents—with its Bulletin section now containing over 600 documents.

Cross-referenced information databases that were developed for Virtual Underwriter include the Underwriting Manual, Standard Exceptions, Forms, Endorsement Guidelines, Bulletins, Business Practices, Master Index and Corporate Directory.

The program was developed in conjunction with Landata Systems, a Stewart Title subsidiary.

Tennessee Firm, Fidelity in Merger

Fidelity National Financial, Inc., parent of organizations including Fidelity National Title Insurance Company, has announced an agreement with First Title Corporation to merge that Tennessee concern with a newly formed subsidiary of Fidelity National Financial.

First Title was founded in 1987 in Nashville, and has grown to 14 offices throughout the southeast, servicing equity and second mortgage lenders by offering title searches, title insurance and loan closings.

Illinois Purchases For First American

The First American Financial Corporation has announced that its principal subsidiary, First American Title Insurance Company, has purchased three title companies in the Peoria, IL, area. All will retain their current names and continue as direct operations of First American.

Those acquired are Illini Title Services, Inc. (Jan Raney has been promoted to manager), Pekin Abstract & Title Company (Fred Luke is manager), and Woodford County Abstract & Title (Beth Brush is manager).

TECHNOLOGY*bytes*

1997-98 Systems Committee

ALTA President Malcolm Morris has appointed the 1997-98 Land Title Systems Committee. The committee has been established to study automation for title operations, develop educational programs and automation expositions, monitor electronic commerce developments, develop standards and procedures for electronic information exchange, and maintain relationships with those monitoring or developing technology innovations in the real estate industry. Please contact ALTA Staff Coordinator Kelly Throckmorton (800-787-ALTA, kelly-throckmorton@alta.org) or any committee member with suggestions or concerns about technology issues or educational programs.

Stephen M. Evans (Chairman)
President, Evans Title Companies, Inc., Appleton, WI

Steve Bennett, C.I.O.,
First American Title Insurance Company, Santa Ana, CA

Robbie D. Graham,
Vice President, Nevada Title Co., Las Vegas, NV

Randall Hood, V.P. & C.I.O.,
Centex Title Operations, Dallas, TX

Carolyn Hoyer-Abbinante,
Secretary/Treasurer, Wisconsin Title Service Company, Inc., Waukesha, WI

Kirk L. Knott, Vice President,
Old Republic National Title Insurance Co., Minneapolis, MN

Bob Luttrull, President,
Pioneer Abstract & Title Company, Muskogee, OK

Edward H. Marsilje, President,
The Title Office, Inc., Holland, MI

Pat O'Rourke, President,
O'Rourke Title Company, Wichita, KS

H. John Oechsle, V.P. & C.I.O.,
Commonwealth Land Title Insurance Company, Philadelphia, PA

Bob J. Palmer, Sr. V.P. & C.I.O.,
Lawyers Title Insurance Corporation, Richmond, VA

Gerhard Perschke, V.P. & Director of Information Services, Chicago Title Insurance Company, Chicago, IL

John N. Sayers, Imaging R&D Mgr., Attorneys' Title Insurance Fund, Inc., Orlando, FL

John C. Stanley, President & Manager, Columbia Title Company, White Salmon, WA

David Tandy, President, Landata Systems, Inc., Houston, TX

Title Automation 2000 Audiotapes

If you missed the informative presentations by Gilbert Barnes of DTS Communications (Microsoft's Online Real Estate & Mortgage Service: Threat or Opportunity?), Rick Morelli of EDS (EDS's Accelerated Closing & Delivery Services) and the Electronic Commerce Panel moderated by Darren Ross of Landata (with Jeff Burns of Elliptus Software Solutions, Randall Hood of Centex Title Operations, and John Sayers of Attorneys' Title Insurance Fund, Inc.) on Wednesday, September 24, don't panic! Audiotapes are available. Just call ALTA at 800- 787-ALTA or e-mail:cindy_ smith@alta.org for an order form.

ALTA Convention Wrap-Up

A video presentation of a hypothetical paperless closing in the future was the highlight of ACDS Account Manager Rick Morelli's presentation, EDS's View of the Real Estate and Mortgage Finance Industry: Where Will the Title Industry Fit In? during the General Session on Thursday, September 27. To obtain a copy of the videotape, contact Christa Sladden of EDS at 972-604-6511 or e-mail fignet04.christa@eds.com.

Don't Waste Your Time Online: How To Find Business and Professional Value on the Internet was the topic. Nancy Barnette, lender relations manager for Attorneys' Title Insurance Fund, Inc., Orlando, FL, was the speaker. You were the lucky one if you were able to attend the session on Friday, September 26 in Seattle. Nancy showed attendees dozens of terrific web pages during a live on-line session and shared her list of favorite sites. A limited number of handouts are available and include Internet addresses for Federal Government Agencies, Legal & Regulatory Research, Maps, Mortgage Industry, Real Estate Industry, Title Insurance Industry, and a list of Search Engines. Just call ALTA or e-mail kelly_throckmorton@alta.org for your copy.

MERS Press Conference

October 7, 1997, New York city During the MBA Convention, a MERS press conference was held to announce that both Fannie Mae and Freddie Mac have approved MERS to act as the original mortgagee on loans purchased by the secondary giants. MERS membership currently totals 151 and includes ALTA, MBA, Fannie Mae, Freddie Mac, eight of the top 10 lenders, and numerous title industry participants: First American Title and Stewart Title Guaranty Company (Charter Members), ATI Title Company, First Financial Title Company of Florida, First Southwestern Title Co., MigraLynx Systems, Inc., Nationwide Title Clearing, Ohio Bar Title Insurance Company, Old Republic Title Insurance Group, Platte Valley Abstract & Title Company, Security Title Guarantee Corp., and Transamerica Real Estate Information Companies. For a complete listing of members and more information on MERS, visit the MERS Home Page at http://www.mersinc.org.

ASC X12 Committee

ALTA extends congratulations to David R. Barkley, director, industry support, Freddie Mac, on his election to chair of the ASC X12 Finance Subcommittee. Mr. Barkley had served for several years as co-chair of the Lending Task Group, and was instrumental during the X12 approval process for EDI Transactions Sets 265, 197, and 199, which were developed by the Electronic Commerce Subcommittee of the ALTA Land Title Systems Committee for use in title operations. He is succeeded by new co-chair Steve Astudillo of Fannie Mae. For more information about EDI in title operations, call 800-787-ALTA or visit the ALTA Home Page at http://www.alta.org to order the videotape "Electronic Data Interchange: Changing the Way You Do Business" and to download the ALTA EDI Implementation Guide.

Meetings Calendar

ALTA Land Title Systems Committee Meeting
December 7-9, 1997
Buena Vista Palace, Lake Buena Vista, FL

MBA EDI Work Group Meetings
January 11-15, 1998
Hastings Hotel & Conference Center Hartford, CT
(Sponsored by Connecticut Attorneys Title Insurance Company)

ALTA Technology Forum & Expo
February 1-3, 1998
Disney's Coronado Springs Resort, Orlando, FL
Call 800-787-ALTA or visit http://www.alta.org for registration and program information

ASC X12 Committee Meetings
February 1-6, 1998
Disneyland Hotel, Anaheim, CA

ALTA Mid-Year Convention
March 16-18, 1998
Grand Hyatt Washington, Washington, DC

QUESTIONS? COMMENTS? SUGGESTIONS?

Contact: kelly_throckmorton@alta.org 800-787-ALTA (phone) 888-FAX-ALTA (fax)

Convention Seattle

Northwest Splendor

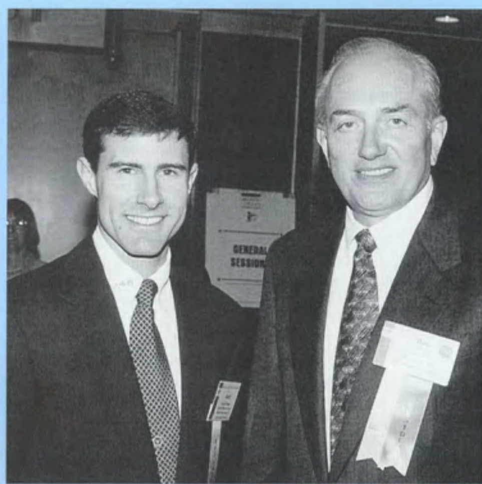
Amid the breathtaking natural beauty that is Seattle, title industry leaders assembled in the Emerald City for an intensive look at leading developments and issues during the recent 1997 ALTA Annual Convention. Technological topics ranging from progress toward a paperless closing to cyberjournalism fascinated those in attendance, and there was focus on drafting and negotiating commercial loan commitments. Developments in bank powers and RESPA were analyzed, and title management-oriented educational sessions covered a wide array of useful and timely subjects. And there was still time for enjoyment of leisure activities.

As these photos by Ken Abbinante suggest, there was much for everyone participating in Convention Seattle. With the speed and sweep of change in the title industry, it was clear that the annual event once again was a most valuable resource on what is necessary for success in this time of unprecedented challenge.

Seattle's Pike Place Market offers a far-reaching bounty of artistic creations, in addition to a wealth of produce and ocean harvest; a glimpse is at top, right. Randall Hood, left, and Richard Morelli discuss the EDS view of paperless closing and its impact on the title industry (immediately below). Malcolm S. Morris, left, 1997-98 ALTA president and Alan Prince, newly elected governor of the Association, confer (lower photograph).

Nancy Barnette talks with Joe Seabeck about making the most of business opportunities on the Internet (top, left), while 1996-97 ALTA President Dan Wentzel and wife Gloria find the Annual Banquet a splendid occasion (immediately below). Relaxing before the Convention presentation on commercial loan commitments are, from left, Peter Jordan, Joe Bonita and Bob Mallow (third photograph from top).

Flying fish? You bet! Workers in the Pike Place Market stalls selling a salt water catch have their own method of moving the merchandise around - through the air - as seen at right, center. Dan Wentzel, left talks with an honored speaker - Air Force Capt. Scott O'Grady of Bosnian combat fame, at top, right. Joe Parker, left, congratulates Malcolm S. Morris on his installation as 1997-98 ALTA president (bottom, right).



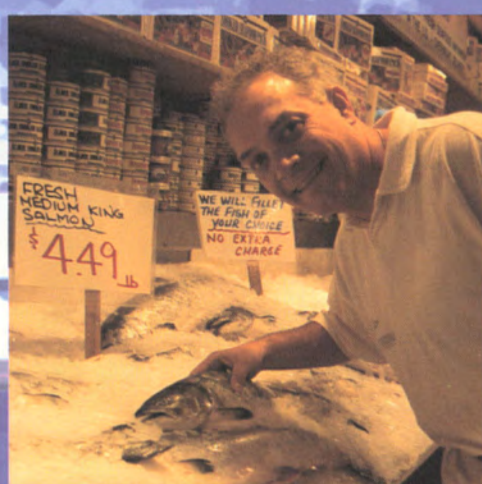
Members of the 1997-98 ALTA Board of Governors shown at second from top, left side, are, from left: Dan Wentzel, Joe Parker, Tony Winczewski, Cara Detring, Malcolm S. Morris, Jeffrey Tischler, Stanley Friedlander. Immediately below are, from left, Cara Detring and husband Terry, Malcolm S. Morris and wife Becky, Joe Parker and wife Linda, in a photograph taken shortly after their installation.

An Elvis sighting? At the ALTA Convention? Those on hand say the mysterious figure (top left) with all those moves might have been reminiscent of Sheldon Hochberg. Charlie Foster, left, visits with Morton Kondracke, Washington-based broadcast pundit who addressed the TIPAC membership, in the photograph immediately below. Elsewhere in the Seattle talent pool, the vocal group at bottom, left, may be in need of an agent (entertainment variety).

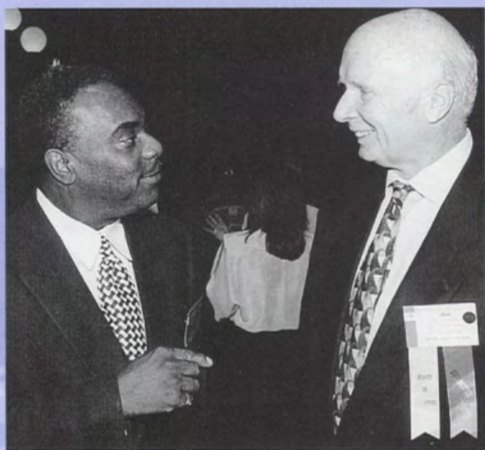
Dan Wentzel, right, chats with a former Washington broadcast commentator and current MicroSoft cyber-journalist, Michael Kinsley, at bottom, right. Second from top at right, Mike Wille, left, congratulates Peter Norden, right, and Alan Prince, whose respective companies, First American and Chicago Title, took top honor and first runner-up for largest employee totals, TIPAC contributions in support of Congressional candidates with views compatible to those of the title industry.

In the top photograph are, from left, Wynne Prince, Marilyn and Mike Wille, Alan Prince. Immediately below, Darlene Allman is congratulated by ALTA President Dan Wentzel upon winning a door prize consisting of a complimentary registration and plane ticket for the ALTA Forum & Expo in Orlando February 1-3. (Please see the Forum & Expo cover story elsewhere in this issue of *Title News.*)

Immediately below, from left, are ALTA Governor Tony Winczewski and wife Renee, along with Association Governor Stanley Friedlander. ALTA Governors in the second photograph from top at right are, from left, John Casbon and Alan Prince, along with fellow Underwriter Section Executive Committee Member Roy Lassiter. Greg Kosin checks out the sea catch in the lower photograph.



At top, left, ALTA President-Elect Joe Parker, right, talks public records systems with District of Columbia Recorder of Deeds Henry Terrell, who found the Convention's educational content on land records technology to be a major interest. With a live-wire band in full swing, there was no lack of action on the dance floor during the Annual Banquet's musical segment (immediately below). Members and guests in attendance soon found themselves part of a "fun happening."



Among the Convention's array of tours, a visit to an artistic glassblowing facility was a particular attraction; one of the resulting pieces is at top, right. Numerous glass art galleries, public glass collections, and studios are located throughout the community. Immediately below, from left, are Abstracter-Agent Section Executive Committee members John Haviland, Greg Kosin and Mark Bilbrey.

Navigating through Change

ALTA

1997 ANNUAL CONVENTION
SEATTLE, WASHINGTON
SEPTEMBER 24-27

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__ 4 **Morton Kondrack**e, Executive Editor, Roll Call,, TIPAC Luncheon Speaker

__ 5 A,B (Two Tapes) **Frank Abagnale**, Security Consultant

__ 6 "Drafting and Negotiating Commercial Loan Commitments - The Do's, The Don'ts, and the What Ifs?" • **Panel**

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Presidential Profile: Malcolm S. Morris

Malcolm Morris brought more than a full work agenda to his installation as ALTA's ninety-first president this fall in Seattle. With his responsibilities as president and chief executive officer of Stewart Title Guaranty Company, it could accurately be asserted that keeping things in shape at that national underwriter is challenge aplenty. But holding the reins of Stewart Title's insurance companies is only part of the demanding and rewarding life of the newly installed Association president.

"It's becoming far more important to not only provide quality service, but develop the electronic ties to stay connected with your customers."

Although he looks forward to an active and involved year at the ALTA helm while guiding activity of his company, there is another important dimension in what drives Malcolm Morris. Much of that additional essence is linked to activity reflecting his deep roots in the Baptist church.

Despite a travel schedule that can readily be described as hectic, this third generation title professional long has been on hand almost every week to teach Sunday school at Houston's First Baptist Church. Malcolm's wife, Becky, teaches Sunday school there as well. Both have worked with middle school youth at the church for 27 years. During his ALTA presidential year, Malcolm will become a substitute teacher at First Baptist because of the travel demands connected with his Association duties.

While effectively responding to business challenges as the title industry continues in an era of unprecedented turbulence, Malcolm long ago has discovered that a fulfilled life must include reaching out to others in need.

"I believe the number one thing the Bible teaches is that you are responsible for your own family, and then you share God's blessings with others," he said. "I cannot imagine a life totally consumed with taking in and never sharing."

An especially memorable event reflecting this outlook was Malcolm's involvement as a founder of Living Water International during a church mission to Kenya in 1990. Please see the accompanying sidebar for details.

Stewart Title: Family Tradition

It all began for Malcolm's family in 1908, when his grandfather, Will Morris, received the first share of stock issued by Stewart Title Guaranty Company in Galveston. A new Texas law allowed his brother-in-law, Maco Stewart, to incorporate a title insurer to augment the abstract company he purchased in 1893. Malcolm's father, Carloss Morris, began training in the business in 1925, with his uncle, Stewart Morris, following some five years later (Stewart Morris, Jr., Malcolm's cousin, currently is chairman of the board for Stewart Title). Their respective fathers eventually became owners of the title company.

"Granddad developed a set of training criteria for Stewart and Carloss that he called the Boys Work Schedule," Malcolm commented. "That file was used in training Stewart, Jr., and me—and has been used with my two sons from the time they were 10 years old. As you might imagine, we have added to it with the advent of technology and the expanding scope of operations in the company."

In 1950, Carloss and Stewart Morris became CEOs of the company following the death of their father. Stewart Morris began expanding the business outside of Texas in 1956, the year Malcolm first went to work for Stewart Title. After an ensuing period, Carloss and Stewart Morris completed a stock acquisition that gave them a controlling interest in Stewart Information Services, the parent of Stewart Title, in 1975. Malcolm and Stewart, Jr., came back on board that year to help with expanding the company—Stewart, Jr., initially concentrating on technology issues and the mountain states, while Malcolm focused on the midwest.

Both Malcolm and Stewart, Jr., found their responsibilities increasing, moving up to senior executive vice presidents in the late 80s before assuming their present positions in 1991. Malcolm feels very fortunate to have Stewart, Jr., with his expertise, to rely on as his partner in the business.

Malcolm S. Morris, 1997-98 ALTA president, and wife Becky

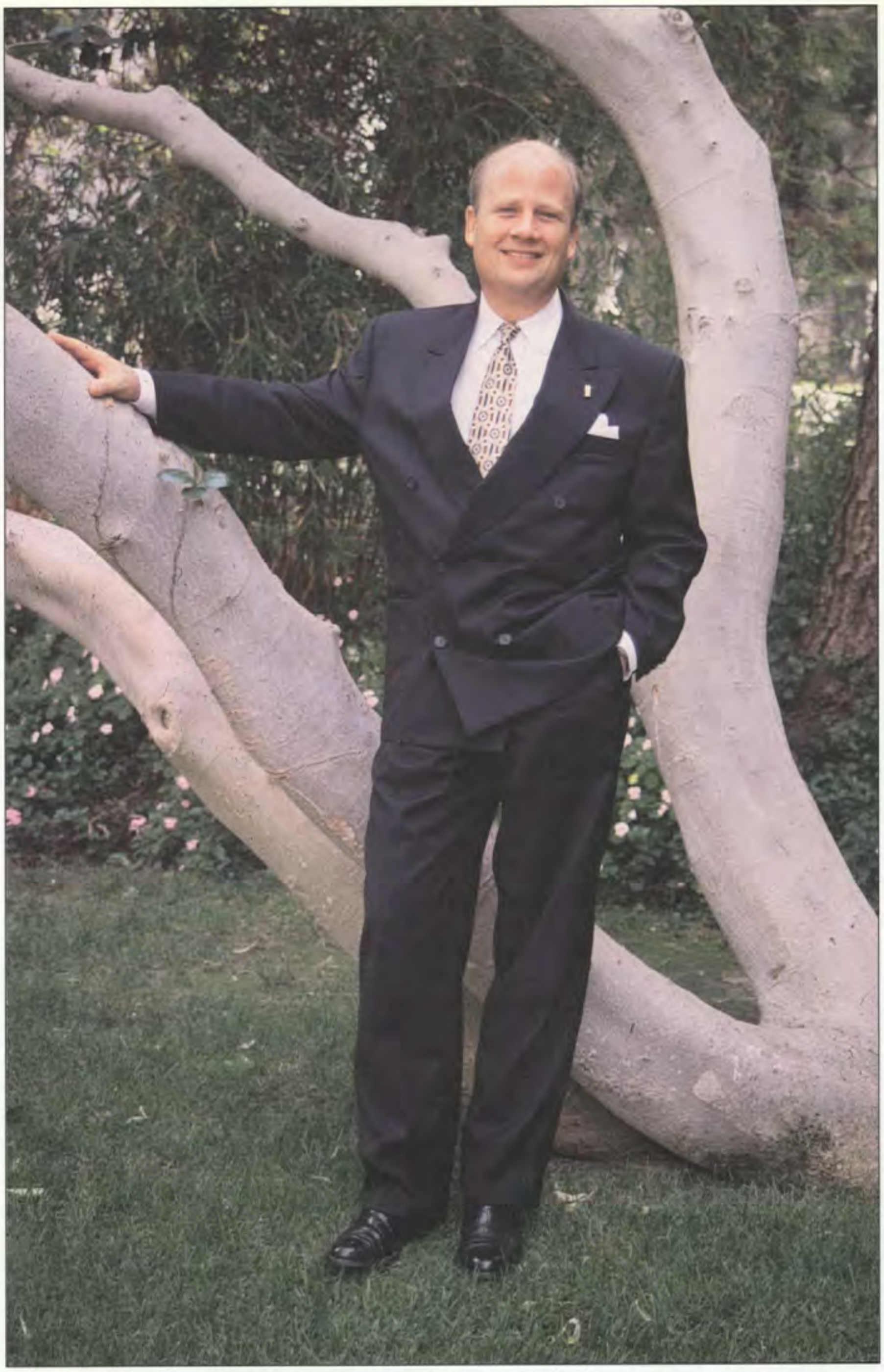
Lobbying Affinity Emerges

Initially, Malcolm considered a career in banking, earning an MBA in finance and banking from the University of Texas before completing an executive training program at a billion dollar bank in Houston (he since has served on the board of a number of banks). But a legal education and the state legislative halls at Austin were to have a more direct impact on his emergence as a title industry leader.

Malcolm is well recognized throughout ALTA for his lively interest in government affairs issues and lobbying, which developed while he attended the University of Texas law school. While a law student, he served as a legislative aide to State Senator Charles Wilson, who later went on to serve Texas in Congress.

"I learned early on that the views of a constituent are very important to a legislator, who must depend on constituents interested in good government to help with a campaign," he said.

> "I *cannot imagine a life totally consumed with taking in and never sharing.*"



President Morris: Title professionals must personally know their legislators

After joining Stewart Title following his law school graduation, Malcolm initially found himself spending considerable time in state legislative lobbying. His previous work with Senator Wilson helped him quickly fit into this new assignment. A number of the state legislators with whom he was acquainted on a first name basis later were elected to Congress.

"I worked with several campaigns at the federal level," the ALTA president said. "It's extremely important for everyone in the title industry to personally know each of their federal representatives and state legislators."

Malcolm recommends that title professionals host fund-raising events for legislative candidates in their title offices, inviting customers and employees so enough will be on hand to encourage a candidate to address those assembled.

"They will remember you always," he said.

Malcolm began his title career at the age of 10, running errands at the Stewart Title office. Initially, he worked over the summers making deliveries, doing tasks in the file room, repairing map books, and locating and re-filing abstracts. Later, he moved on to title plant posting, helping convert the plant from a card system to microfilm. Then came searching and learning to examine titles, and working on the closing desk.

After that, Malcolm began auditing agencies and branches across Texas, worked in the legal department on qualification and expansion of the company, worked with outside counsel on the company's first public offering, performed underwriting, set up new title insurance company subsidiaries, and organized new offices, districts, and regions of the company.

"In 1956, when I began, the industry was pretty much localized," the ALTA president commented. "Agents largely worked in their respective towns, and underwriters in their various jurisdictions. Today, not only underwriters but agents are listening to their customers and go where it is necessary to serve their needs."

Title professionals have responded quickly because of a full awareness that builders, law firms, lenders and brokers all have moved to operations on a national level, Malcolm added.

"It's becoming far more important to not only provide quality service but develop the electronic ties to stay connected with your customers," he said.

Malcolm has found that studying law helps develop the ability to think and critically analyze issues.

"But, the law also teaches you to win at all costs, which is a negative," he added. "In business, I feel it is important to understand the needs of all parties and try to develop win-win situations, where all come out for the better."

The ALTA president considers the area of class action litigation in need of major reform.

"We need to resolve the very real threat to the U. S. business climate from class action lawyers who abuse the legal process—not so much to resolve a client's problem, as to nitpick laws to their advantage in order to earn large fees," he commented. "In the end, these lawyers actions really serve to increase the cost of products for the consumers they purport to benefit."

Family Teamwork

Becky and Malcolm Morris have been a team since they met while students attending Southern Methodist University. When Malcolm transferred to the University of Texas law school to work in the state legislature at Austin, Becky also transferred to continue her undergraduate work there. Currently, Becky is well occupied as a member of the Board at Houston Baptist University.

Matt, the couple's oldest son, is married to Melissa and holds a BBA from SMU and and MBA from the University of Texas. He recently has completed a stint as a legislative aide for Representative Charlie Howard serving in the Texas House, and at this writing was busily engaged in organizing a national Bible Conference for College Students called Passion 98, scheduled to conclude early in 1998. Who knows, maybe Matt will consider coming aboard at Stewart Title. Andy, Matt's younger brother, is a recent graduate of Davidson College pointing toward a career in medicine and the ministry. He currently serves as coordinator of missions at Houston Baptist University.

With an always demanding schedule, Becky and Malcolm enjoy spending available time at home whenever possible. They reside in town on acreage that backs up to a 2,000-acre public park with equestrian trails. This setting facilitates keeping Arabian horses at home, and allows space for another favorite pasttime—riding horses and driving horse-drawn carriages. Water skiing and snow skiing are other leading pursuits for the family.

Leading Developments, Issues

Looking ahead, Malcolm finds it critical for ALTA to remain in contact with important title customer entities across the country—including Fannie Mae, Freddie Mac, MERS, EDS and others—to keep current on their requirements for faster, secure loan closings through title industry services, and to convey regular updates on this to ALTA members in an educational framework.

continued on page30

Drilling Water Wells Life-Saving Venture

What began as a mission trip to Africa and quickly spun into high adventure has grown into a remarkable humanitarian enterprise for ALTA President Malcolm Morris and a dedicated band of kindred spirits.

Initially, the task called for building three churches, drilling a water well for each, and holding a medical clinic at each site, all in Kenya.

Things became complicated soon after the group arrived in Africa for the three-week project in 1990. Upon reaching Kenya, they discovered the government had refused to clear their drilling equipment through customs, so it remained unavailable for the remainder of the work period. Malcolm found himself spending little time constructing churches—and a lengthy stretch lobbying and applying legal skills and prayer in an effort to secure release of the equipment.

During the process, over 150 government signatures were obtained and multiple trips made between Nairobi, the capital, and Mombasa, site of the group's ministry and hoped-for wells and clinics.

Malcolm personally went to the office of President Moi, the country's president, and also met with Vice President Saitoti. With the political climate unstable, he experienced an adrenaline surge as troops carrying machine guns detained and searched him—then showed him a telephone number he had dialed from the vice president's office and demanded to know whose number it was. Told it was the private number of the president of Kenya, the interrogator dialed the number to check it out—as Malcolm experienced visions of becoming the first American title company executive to languish within the walls of an African jail. Cooler heads finally prevailed and Malcolm was released, with the vice president giving approval to release the equipment.

continued on page30

The Morris family with Kenyans at one of the water wells drilled by Living Water International to help substantially improve the quality of life there. Family members in the rear, from left, are daughter in law Melissa, Matt—her husband, Andy, Becky and Malcolm. Matt and Andy are the sons of the Malcolm and Becky.

PROFILE
continued from page29

This includes working with real estate task groups wherever appropriate.

"Technology and the needs of these customer groups are literally evolving on a quarterly basis," he declared. "We must continue to seek opportunities for educating each of these customer groups on the intricacies of the title insurance business, and the importance of our process which allows the titles to continually be refined rather than devolving, as would be the case if we ever let the industry lapse into a casualty-type market. In a customer-driven atmosphere demanding speedy closings and lower costs, lenders will be inclined to steer around a title insurance industry that does not respond quickly enough."

While working with lenders to help achieve faster service and lower costs, Malcolm strongly feels ALTA must take every available initiative to help them understand that the quality of titles cannot be allowed to devolve.

"Titles which are not corrected continuously as they pass through multiple ownerships will continue to be corrupted by the myriad types of liens now being legislated," the ALTA president said. "Lenders must be helped to understand the importance of quality, as well as speed and cost control, in title work impacting the future of the market."

As for major national issues, Malcolm feels that banks ultimately will enter the title insurance business, although he questions how many will make selling title insurance a major priority.He would like to see banks compete fairly with independent title companies, as advocated by ALTA in House legislation earlier this year.

RESPA Section 8, containing the anti-kickback provisions, served the settlement industry well for many years, the ALTA president said.

"Today, it has been indiscriminately enforced, misinterpreted, and so modified from its original concept that it unfairly limits competition by agents as well as underwriters," he commented. "In this era of electronic commerce, RESPA has outlived its usefulness and underwriters and agents alike would be better served by its repeal. With the abiding threat of class actions under Section 8, settlement disclosure and consumer regulations are a better alternative."

In the area of rate regulation, Malcolm would like to see rating bureaus implemented as an alternative to rate setting, following the guidelines set forth in the United States Supreme Court decision in *FTC v. Ticor* (please see article, **Rating Bureau Participation After *FTC v. Ticor***, July- August, 1997, *Title News*). The ALTA president believes effective rate making combines the services necessary to deliver the title insurance product—including search, examination, and closing.

Malcolm points to his home state of Texas as a leading example of effective regulation for title insurance.

"Basically, the Texas law is designed to prohibit rebates and the buying of business, which ultimately raise the cost to the consumer," he said. "Probably the key thing in Texas has been not only adequate regulation but adequate enforcement of the regulation. The worst thing that can happen is to have a set of regulations the regulator does not enforce, leaving those operating outside the law to buy the business, which adversely affects those operating within the framework of the law."

As ALTA moves toward the next century, Malcolm sees a continuing vital involvement for title underwriters and agents alike.

"I believe the greatest challenge ALTA will face is determining the appropriate roles that its members will play in the real estate process—and broadening ALTA representation to include participation in these arenas," he said. "ALTA has become very pro-active in reorganizing itself and will continue to expand its services and representation in response to the needs of its membership."

Lessons of Life

As the title industry advances, ALTA's 1997-98 president finds the key to its success not far removed from what he has been taught during a lifetime in the church.

"We are dependent upon people making decisions in our industry from a basis of moral integrity," he said. "Without this, we will collapse. This business cannot survive with dishonesty."

This includes "realizing that we are here on earth to serve, not to be served," he added, "listening to others and their needs (not wants) while maintaining honesty and integrity in attitude."

And attitude is most important of all, the ALTA president added.

"Attitude makes the difference," he said. "Attitude toward other people. Attitude toward your job. An attitude of realizing that the world doesn't owe you."

LIVING WATER
continued from page 29

On the day before their scheduled departure, Malcolm's group was able to set up the equipment and drill a water well at Mombasa—which then collapsed.

History repeatedly has shown that churchmen on a mission are not easily discouraged, and this proved true for Malcolm's group. It was decided to return later to Kenya and drill water wells at the three now-constructed churches. This was done and, as group members were purchasing supplies in Africa before completing the three wells, they discovered a large drilling rig owned by Amoco Oil.

After returning to the United States, the churchmen visited with Amoco officials—who said their oil drilling in Kenya had not been successful, and they were considering movement of the equipment back home to America. In order to ship the rig from Kenya, Amoco faced payment of a $200,000 export tax. The company offered to sell the equipment for this amount.

Events that followed led to the incorporation of Living Water International as a 501(c)(3) non-profit organization, and transfer of the drilling equipment from Amoco to Living Water. Soon thereafter, Living Water Kenya was formed as a non-governmental organization (NGO) to help with determining well sites, meeting strategic needs, and conducting continuing operations in Kenya.

Since then, Living Water has completed 45 water projects serving over 250,000 people at churches, hospitals, and schools in Kenya. The operation now includes four rigs, an equipment yard, and trained drilling crews that can now complete up to 20 water projects in a year. About 75 percent of the funds for this activity are raised in Kenya, supplemented by some $300,000 collected annually through Living Water International in the United States.

"Most of the death and disease among children in Kenya result from impure water," Malcolm said. "It is very rewarding to visit Africa and see how people's lives are being changed with safe drinking water. Before Living Water, many schools and hospitals had no water. Mothers walked 10 miles to get water, which they carried in heavy barrels on their backs."

In July, the Morris family led a group of 34 working with the Massai in the Great Rift Valley of Kenya. It was like retreating 2,000 years in time, Malcolm recalled. Only four years ago, the Massai settled all claims to their land, putting on red war paint and sweeping across the valley. Claimants had a choice: vacate or be killed.

"Quickest cure to title problems I've heard of," the ALTA president said.

Living Water has undertaken a 10-well project for the Massai; the first well appeared to be dry. Drilling stopped and, after prayer, the drillers continued, hitting a gusher at 108 meters. The Massai men ripped off their clothing and danced in the water.

Malcolm has remained on the board of Living Water International and, with operations up and running in Kenya, a new entity has been formed this year—Living Water Guatemala.

NAMES IN THE NEWS


Flynn


Yonkman


Lundy


Collins


Hauser


Stipanovich


Pelletier


Greek

Fidelity National Financial, Inc., parent of organizations including Fidelity National Title Insurance Company, has appointed **Allen D. Meadows** executive vice president—chief financial officer. **Carl A. Strunk**, formerly in that position, has been named executive vice president—finance.

In other management changes at the company, **Andrew F. Puzder**, executive vice president and general counsel, was given expanded operational duties and **M'Liss Jones Kane** was promoted to the general counsel position. **Donald E. Partington** has been elected general counsel of the company's underwriting subsidiaries.

Michael Flynn has been elected general litigation counsel and vice president, Chicago Title Insurance Company, and also will serve in that capacity for the company subsidiaries, Ticor Title Insurance Company and Security Union Title Insurance Company. **Jacob (Jack) Yonkman** has been named general claims counsel for Chicago Title. **Ruth Lundy** has been elected human resources manager and resident vice president, Chicago Title and Trust Company. **Michael V. Nuesca** has been named vice president with responsibilities in commercial/industrial and investment property transactions.

Robert J. Hauser, Jr., a 26-year veteran of the title insurance industry, has joined First American Title Insurance Company as senior vice president—national agency operations. This past year, he served as chairman of the ALTA Government Affairs Committee. **James Stipanovich**, president of Midland Title Security, Inc., a wholly-owned subsidiary who has spent 27 years in the title business, has been named to the additional position of First American regional vice president.

Paula S. Caplinger has been named assistant vice president and Virginia state counsel for the company, and **Rebecca L. Pelletier** has moved up to assistant vice president—corporate commercial marketing. **Kathleen M. Collins** has joined the company as associate counsel, and **Pat Long** is now an account executive in business development. **Mark C. Greek** has been named senior vice president—state agency manager for a subsidiary, First American Title Insurance Company of Texas.

Robin L. Bradley has joined Old Republic National Title Insurance Company as vice president and Georgia state manager.

Mary Witt has been appointed vice president, director of residential marketing, at Rattikin Title Company, Fort Worth, TX. **Shea Adrian** has been named assistant vice president—business development, and **Carolyn Hodnett** has been appointed branch manager/escrow officer.

Timothy L. Kalep has joined Metropolitan Title Company as equity operations manager, and **Christine Hammerle** has been named human resources director for that Michigan title agency.

Linda J. Bellknap, marketing manager—agency operations for Ohio Bar Title Insurance Company, has been appointed chair of the Ohio Land Title Association membership committee.

Kalep

Hammerle

Bellknap

Home Ownership Sets New Record

President Clinton's initiative to expand the national home ownership rate to a record level by the year 2000 has been successful three years early.

Figures announced by the Census Bureau for the third quarter of 1997 show the national home ownership level at 66 percent, shattering the previous record of 65.8 percent established in the third quarter of 1980, with 67.6 million American families now owning their homes.

In commenting on the new record as announced by the White House, HUD Assistant Secretary for Housing–Federal Housing Commissioner Nicolas P. Retsinas congratulated ALTA and other members of the National Partners in Homeownership for their active support of the Presidential effort. The partnership is a voluntary group consisting of public and private real estate entities.

As part of the ALTA participation in the partnership, the Association is developing a uniform closing instruction letter–which was drafted by its Closing Committee. The Mortgage Bankers Association of America is assisting in lining up comments on the draft from major lending organizations.

According to HUD, 5.8 million more American families now own homes than at the beginning of the Clinton administration.

Since its creation in 1995, the partnership has been working to implement 100 actions designed to make home buying more affordable, faster and easier. In addition, activities to increase home ownership are being carried out by 131 local partnerships in support of the national strategy. Among these local initiatives are homeownership counseling sessions, homebuying fairs and help with locating homes.

In June, President Clinton and HUD Secretary Andrew Cuomo announced a series of initiatives to help increase homeownership across the nation. These include:

- An additional reduction in the FHA home mortgage insurance premium, applicable to all first time homebuyers with FHA-insured mortgages, projected to save buyers $200 in closing costs on the average FHA mortgage of $85,000
- A program to enable as many as 2,000 police officers to buy HUD-owned homes at half price, which is designed to reduce crime and make low-income neighborhoods more attractive to homeowners
- Proposed legislation that would allow working families to receive rental vouchers from HUD under the Section 8 program, through which the vouchers could be converted to empowerment vouchers enabling home purchase
- An additional $10 million investment to create new homeownership zones that would revitalize blighted inner cities, transforming them into thriving neighborhoods
- Proposed legislation that would allow communities to use HUD Section 108 economic development loan guarantees to promote homeownership
- An additional $10 million investment to create new homeownership zones that would revitalize blighted inner cities, transforming them into thriving neighborhoods.

Fidelity Creates Lender Network

Fidelity National Financial, Inc., parent of organizations including Fidelity National Title Insurance Company, has announced definitive agreements to purchase three firms, along with a letter of intent to acquire a flood certification company. According to the announcement, these acquisitions will be bundled together with other existing lender services to form a new Fidelity lender information network providing a complete range of transactional services for loan originations, loan servicing, and loan defaults.

In the recently reported acquisitions, Ifland Credit Services, Inc., and Credit Reports, Inc., are being merged to form Fidelity National Credit. Also being acquired is Express Network Services. The announcement reports projected 1998 revenues for the combined properties at approximately $16 million.

Also, Fidelity has announced the letter of intent to acquire Bron Research, Inc., a flood certification company with estimated 1998 revenue of $5 million, which is being renamed Fidelity National Flood, Inc.

In addition, Fidelity advises that organizations being included in its lender information network and based at its Irvine, CA, headquarters include a trustee sales guarantee division providing foreclosure services; a publishing and posting company providing foreclosure notification services; a division providing title and escrow services for finance companies, and an operation providing reconveyance and tracking services, assignment of beneficial interest, and miscellaneous property record research.

Also included, according to Fidelity, will be a recently acquired equity lender servicing entity,a national lender escrow processing operation; and an existing tax subsidiary.

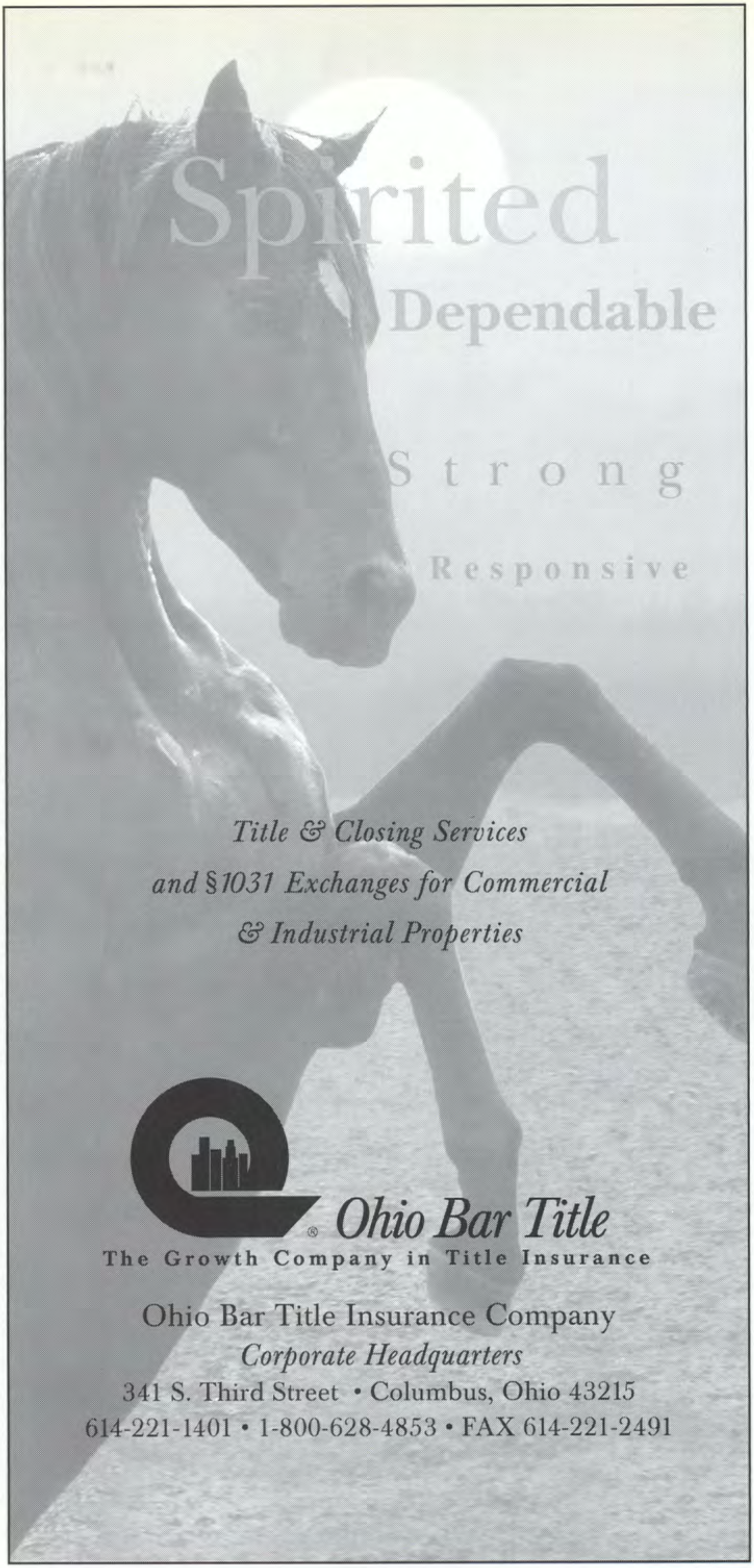
Receipt and delivery of information will be through Fidelity's electronic commerce network. Estimated 1998 revenues for the entire new division are in excess of $110 million.

New Metropolitan Production Unit

Metropolitan Title Company, Michigan's largest title insurance agency with over 600 employees statewide, has announced groundbreaking on its new Kensington Pines Production Center/Warehouse, located in Green Oak Township.

Metropolitan has targeted spring, 1998, for occupancy of the new facility. Company headquarters are at Howell, MI, with regional offices in Bloomfield Hills and Holland.

The Kensington Pines production unit will occupy 23,700 square feet; contract was awarded to Rand Construction Engineering, Inc., a design and build firm.



Services Unified By Chicago Title

Chicago Title and Trust Company has announced the renaming of three subsidiaries—to Chicago Title Credit Services, Inc.; to Chicago Title Flood Services, Inc.; and to Chicago Title—Market Intelligence Inc.

The renaming is part of a response to customer demand for unified real estate-related products and services, according to Mike Keller, Chicago Title executive vice president, technology and real estate-related services.

Chicago Title Credit Services provides credit reporting services nationwide. Chicago Title Flood Services provides flood zone status and geographic hazard data on properties throughout the country. Chicago Title–Market Intelligence Inc. furnishes alternative property evaluation products, traditional appraisals and related real estate information nationwide.

Agent Purchased By First American

First American Title Insurance Company has purchased the operations of Settlers Abstract Company, previously its agent, which has been consolidated with First American's existing office in downtown Philadelphia.

The purchase is from Settlers owners Benjamin D. Goldman and David J. Feldman. The agency was founded by Goldman in 1978; he served as president of the firm until Feldman assumed that position in 1989.

Feldman has been named vice president and branch manager for the new First American acquisition.

Fidelity Announces Note Repurchase

Fidelity National Financial, Inc., parent of organizations including Fidelity National Title Insurance Company, has announced purchase of $45 million principal amount at maturity of its Liquid Option Yield Notes due 2009 ("LYONS") from Merrill Lynch, Pierce, Fenner & Smith Incorporated in a private transaction for an aggregate purchase price of $27.2 million (or $605 per $1,000 principal amount at maturity of LYONS).

The purchase price was paid in the form of 1,152,381 shares of common stock.

According to the announcement, Fidelity indicates the repurchase will increase shareholder equity by $25.5 million and reduce outstanding indebtedness by approximately $24.3 million.

Fidelity said an extraordinary non cash loss of approximately $1.7 million ($.09 per share fully diluted based on third quarter outstanding shares) will be recognized during the fourth quarter ending December 31, 1997.

DCR

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title insurers is the impact of down real estate cycles. For most title insurers that have experienced operating losses, the inability to quickly adjust fixed costs, and the increased occurrence of agency defalcations, have been the driving force behind poor performance that can ultimately erode capital.

The second most dominant risk (R9), not unlike that of property/casualty insurers, is to maintain capital against adverse deviations in reserve estimates. Given that most title claims take several years to settle (and some can take several decades), claim costs and their associate reserves are an estimate. Thus, just as property/casualty insurers are required under the NAIC RBC ratio to establish capital against possible adverse reserve development, title insurers have a similar requirement under DCR's RAC formula. As noted previously, the risk charges are lower for title insurance than in most property/casualty lines.

With increased abilities to evaluate the industry's reserve development over time with the advent of Schedule P, DCR will become better able in future years to evaluate the risk in title reserves relative to property/casualty lines, and will adjust the R9 charges as relative experience dictates.

The third most dominant risk is for large losses (R10). Though large commercial losses are both rare and highly unlikely, the impact on an insurer's financial viability in the event of such a loss would be devastating if some reasonable level of capital were not maintained. The magnitude of the R10 charge is primarily a function of the very large single risk exposures taken on by several of the larger commercial carriers, where in extreme cases net single risk retentions exceed $200 million.

Total investment risk (R1-R6) is the other significant item affecting RPS. However, investment risks are not as dominant relative to the other charges since the title industry maintains a very low risk investment profile. This can be seen clearly when comparing the investment mix of title insurers to the property/casualty sector and especially the life/health sector, and the much lower levels of risky assets such as common stocks, below investment grade bonds and mortgage loans.

It should be noted that the covariance adjustment reduces RPS by close to 42% from the simple summation of the R1-R12 charges. DCR recognizes that there is some overlap in the risks it is measuring in R9, R10 and R11, and that by treating each separately in the covariance calculation, and thus allowing the covariance adjustment to be large, the adverse impact on RAC of any "double counting" of similar risks should be eliminated.

It should also be noted that at year end 1996, DCR's analysis indicated that the title industry's statutory reserves were highly redundant compared to actuarial reserve requirements. APS was 28% higher than stated surplus due to redundancy adjustments. DCR believes much of this relates to the very favorable experience on refinancings over the past few years.

Industry Risk Adjusted Capital Ratio Calculation

Industry Aggregate — 12/31/96 ($ in millions)

Stated Policyholders Surplus	$1,212	
Reserve Redundancy Adjustment	340	
Adjusted Policyholders Surplus (APS)	$1,551	
Required Policyholders Surplus		**% of RPS**
(R1) Investment Credit Risk	15	
(R2) Real Estate-Related Investment Risk	12	
(R3) Interest Rate Risk	91	
(R4) Market Volatility Risk	20	
(R5) Issuer Concentration Risk	3	
(R6) Affiliated Investment Risk	35	
Subtotal Investment Risk (R1-R6)	176	12%
(R7) Other/Misc. Asset Risk	9	1%
(R8) Other Asset Credit Risk	15	1%
(R9) Adverse Claim Development Risk	363	25%
(R10) Large Loss Risk	232	16%
(R11) Expense/Agency Risk	591	41%
(R12) Business Concentration Risk	48	3%
Total Before Covariance (R1-R12)	$1,434	100%
Covariance Adjustment	($605)	
Required Policyholders Surplus (RPS)	$829	
Risk Adjusted Capital Ratio (RAC = APS/RPS)	187%	

FORUM/EXPO

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Please join us in Orlando in February. We've planned a program with something for every title professional, regardless of your level of technology knowledge and experience. Early-bird registration fees start at just $395 for ALTA Members. Additional attendee discounts are available, so consider bringing several people from your organization. To register or obtain additional program information, visit the ALTA Home Page at http://www.alta.org or call us toll-free at 1-800-787-ALTA.

See you in February!

El Dorado Firm Sold and Merged

Among the correspondence reaching Title News recently is a letter from Clem H. Silvers, El Dorado, KS, ALTA president in 1963-64, who advises that his former company, F. S. Allen Abstract and Title Company, has been sold along with Butler County Title Company, Inc. The two companies have been merged and now operate as Butler County Title.

Butler County Title has offices in Augusta and Andover in addition to the new branch at El Dorado. Randall L. Waldorf is president of the company.

After purchasing the abstract business in 1899, the owner at that time changed the name to F. S. Allen Abstract in 1920. Although there have been ownership changes over the years, the name remained the same until the recent merger.

Past President Silvers became owner of the entire business in 1950 after purchasing a half interest the previous year. He remained the owner until selling the company to his son-in-law, Dick Knowles, some 10 years ago. Knowles is entering the mortgage banking business, according to Silvers.

The ALTA past president plans to continue working part time at his former company, as long as this is agreeable with Waldorf. In an article on the merger appearing in *The El Dorado Times*, Waldorf is quoted as saying Silvers can continue there as long as he likes.

"I am too young to retire; I am only 87 and still enjoy working, although three to four hours a day is my limit," Silvers writes.

The ALTA past president says he misses attending conventions of the Association, but that he has had to pass on the opportunity for health reasons. He resides in El Dorado with an amicable dog acquired from his granddaughter while she was attending Kansas State University. Her sister and brother now attend K-State, where he is the long snapper on the football team and has played in the Holiday Bowl and the Cotton Bowl. Silvers is hoping for another bowl appearance to be included in his grandson's career this season.

MARKETPLACE

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. Blind box service available upon request.

Those desiring to place classified advertising in Marketplace 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. Made-up examples are shown below to provide an idea of style.

Sample: Help Wanted
LEAD ABSTRACTER wanted for three-county Kansas operation. Must be licensed or comparably qualified. Send resume, particulars to **Marketplace** Box H-326.

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

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

Sample: Wanted to Buy
WANTED TO BUY: Used SOUNDEX system, must be in good condition. Particulars in first letter. Write Marketplace Box B-247.

1998 Affiliated Association Conventions

February

18-22 **Alaska**, (site to be announced)

April

2-4 **Oklahoma,** (site to be announced)

18-22 **Tennessee**, Ritz Carlton-Buckhead, Atlanta, GA

May

3-5 **Iowa**, Savory Hotel, Des Moines, IA

June

2-5 **California**, Resort at Squaw Creek, Squaw Valley, CA

5-6 **Texas**, (site to be announced)

7-9 **Pennsylvania**, Lancaster Host Hotel, Lancaster, PA

12-13 **Arkansas**, Inn of the Ozarks, Eureka Springs

18-20 **Colorado**, Keystone Resort, CO

25-28 **New England**, Lake Morey Inn Resort Country Club, Fairlee, VT

28-30 **Oregon**, Resort at the Mountain, Welches, OR

July

9-11 **Illinois**, Opryland Hotel, Nashville, TN

16-19 **Utah**, Homestead Resort, Midway, UT

19-21 **Michigan**, (site to be announced)

August

13-15 **Minnesota**, Regal Hotel, Minneapolis, MN

13-16 **North Carolina**, Sheraton Atlantic Beach, Atlantic Beach, NC

20-22 **Kansas**, Hyatt Regency, Wichita, KS

20-22 **Wyoming**, Saratoga Inn, Saratoga, WY

27-30 **New York**, Royal York Hotel, Toronto, Canada

September

10-12 **Missouri**, Holiday Inn, Cape Girardeau, MO

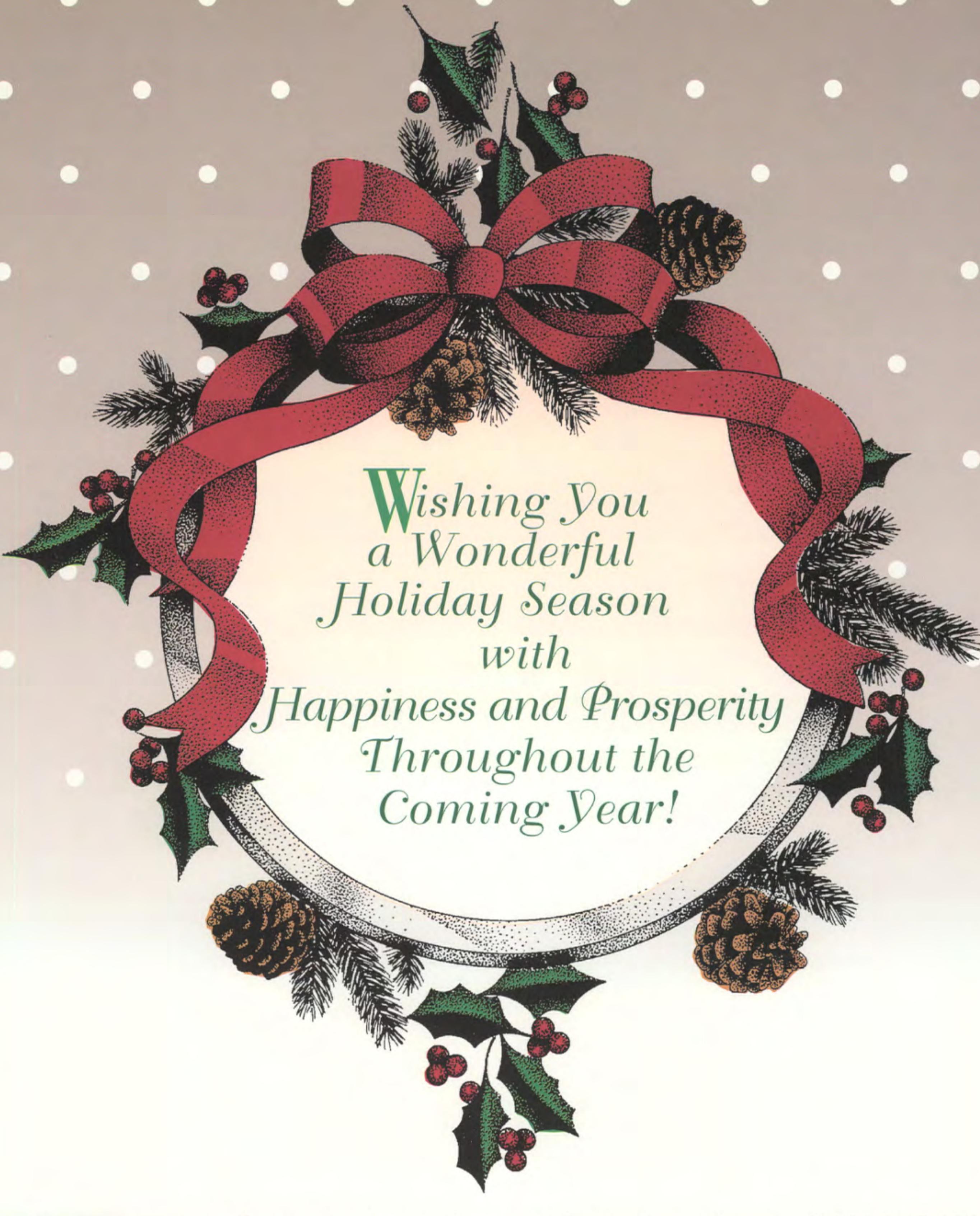
17-19 **North Dakota**, Holiday Inn, Bismarck, ND

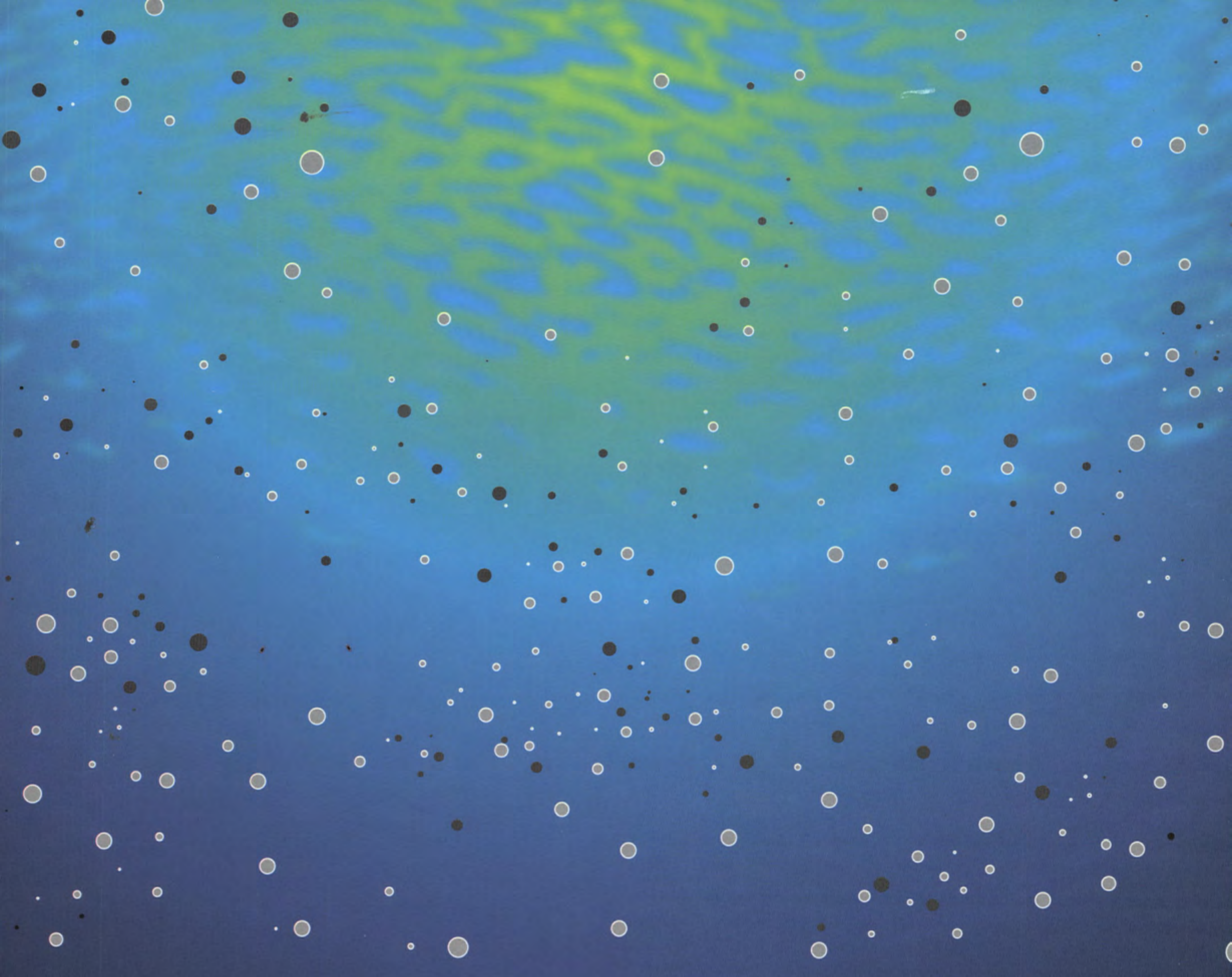
18-20 **Dixie**, Brasstown Valley Resort, Young Harris, GA

20-22 **Ohio**, Akron West Hilton, Akron, OH

23-25 **Nebraska**, Regency Inn (formerly Holiday Inn), Kearney, NE

TITLE NEWS ADVERTISERS


Wishing You
a Wonderful
Holiday Season
with
Happiness and Prosperity
Throughout the
Coming Year!



American Land Title Association

1828 L Street, N.W.
Washington, D.C. 20036