TITLE News

JANUARY 2018

AMERICAN LAND TITLE ASSOCIATION

2018 HOUSING FORECAST

Rinse and Repeat?

Purchase Mortgage Volume Predicted to Increase While Refi Activity Continues to Cool and Borrowers Tap Home Equity

OLD REPUBLIC TITLE

MYTH: MILLENIALS ARE NOT BUYING HOMES.

FACT: BUYERS 36 AND YOUNGER REPRESENT 34% OF HOMEBUYERS, THE LARGEST GENERATIONAL GROUP TO PURCHASE HOMES.*

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DON'T MISS THIS MONTH'S DIGITAL ISSUE OF TITLENews

The digital edition of **TITLENews** includes a recording of the webinar "Know Your Customer: 2018 Housing Market Forecast."

Go to **www.alta.org** to get your copy of *Digital TitleNews Today*.

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No Change Is Victory

IN DECEMBER, CONGRESS PASSED, AND PRESIDENT TRUMP SIGNED signed the landmark Tax Cuts and Jobs Act, which cuts tax rates for corporations, provides new breaks for private businesses and reorganizes the individual tax code. Specific to real estate, the new legislation will affect homeowners, homebuyers, real estate investors and ALTA members.

Regardless of how you feel about tax reform, you're probably hearing a lot about all the changes the bill will make to the tax code, but one thing that won't change is the important capital gains tax exclusion for Americans selling a home. The original House and Senate versions of the bill would have increased the number of years required to own and occupy a residence to be eligible for an exclusion.

That's when ALTA members jumped into action, explaining to members of Congress and their staff that tax policy changes should promote investment in real estate and housing. There are many marbles in the tax reform bag, but Congress listened and understood that increasing the holding period would have artificially reduced the ability of homeowners to generate wealth, decreased the desire to purchase a home and profoundly affected the economy and local communities. (We'll have analysis of how tax reform will affect real estate and ALTA members in a coming edition of *TitleNews*.)

This was a significant victory for us, as well as for working families and military veterans who must move for their job or unforeseen circumstances. You should feel proud. You and your colleagues were the game-changers. Members of the Title Action Network (TAN) sent 2,388 messages to Capitol Hill opposing the proposed changes to taxation of capital gains on the sale of a primary residence.

This is a reminder of the importance of political engagement. Your involvement in TAN, Congressional Liaisons, ALTA committees and TIPAC matters. But in the world of advocacy, the celebration is short-lived. There was time during the holidays to enjoy family and friends. Now, we are back to work. There is plenty more to work on—fixing TRID, reforming mortgage finance and providing regulatory relief, to name a few. Join us at the Advocacy Summit in May to make a difference on these important topics. Bring on 2018! ■

Michelle L. Korsmo, *ALTA's chief executive officer*

ALTA Urges Support for Bill to Clarify CFPB's Ability to Regulate Insurance

ALTA joined seven other insurance trade groups urging support for a bipartisan bill that would clarify and reinforce the Consumer Financial Protection Bureau's ability to regulate the insurance industry.

In a statement for the record to the U.S. House Financial Services Subcommittee on Financial Institutions and Consumer Credit, ALTA wrote that Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act explicitly exempted the business of insurance from the purview of the CFPB except to the extent of the "enumerated consumer laws."

"Essentially, Dodd-Frank reiterated that the regulation of insurance had been delegated to the states under the McCarran-Ferguson Act," the letter said. "Unfortunately, the bureau has demonstrated its willingness to 'tip toe' into insurance regulation and explore the extent of its powers in an open-ended and sometimes confusing manner."

The subcommittee held a hearing on Dec. 7 titled, "Legislative Proposals for a More Efficient Federal Financial Regulatory Regime: Part II," which debated HR 3746, the "Business of Insurance Regulatory Reform Act of 2017."

HR 3746—introduced by U.S. Reps. Sean Duffy (R-Wis.) and Gwen Moore (D-Wis.)—would amend the Consumer Financial Protection Act of 2010 to clarify the authority of the CFPB with respect to entities regulated by a state insurance regulator, and for other purposes.

The letter states that the "bureau should only exercise regulatory jurisdiction over the business of insurance where it has clear authority from Congress and that deference should be given to state insurance regulators when it comes to the business of insurance." It continues: "When considering regulatory reform at the bureau, avoiding the kind of duplication which would be created in regulating insurance must be at the top of the priority list."

Senate Banking Committee Approves Bipartisan Regulatory Reform Proposal

In December, the Senate Banking Committee approved its bipartisan regulatory reform proposal, S. 2155. The Economic Growth, Regulatory Relief and Consumer Protection Act focuses on relief for community banks and credit unions. It does not contain some items of importance to ALTA members, including a change to the TRID three-day rule for instances in which the consumer could get a lower interest rate and a requirement for the CFPB to write new consumer protections for Property Assessed Clean Energy (PACE) loans.

The bill passed out of the committee by a vote of 16 to 7. It now heads to the full Senate, where it is likely to pass, given the number of Democratic co-sponsors. ALTA is working on getting a companion version of the TRID Improvement Act of 2017 (H.R. 3978) added to the bill. The TRID Improvement Act would require the disclosure of title premiums on the TRID forms in accordance with state regulation or company rate filings. HR 3978 passed the House Financial Services Committee in November by an overwhelming 53-5 bipartisan vote. ■

Clarification: Meridian Title Corporation Not Fined by CFPB

In the November 2017 edition of *TitleNews*, it was incorrectly reported that the settlement between the Consumer Financial Protection Bureau (CFPB) and Meridian Title Corp. included a fine payable by the company. The consent order, which served to settle CFPB allegations denied by Meridian, did not include a fine against Meridian. Rather, to avoid protracted litigation so that, without distraction, it "can do what it does best—helping facilitate the timely and orderly transfer of title from seller to buyer in real estate transaction," Meridian agreed to provide consumers whose transactions were identified by the CFPB with limited reimbursement. Meridian reiterated that "consistent with the guidance provided by the CFPB and its own internal compliance program, Meridian intends to remain the premier title agency in Indiana with a first-in-class robust consumer compliance program." ■

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ALTA, Other Trades Warn Limiting Capital Gains Exemption Would Disrupt Housing Market

ALTA and 12 other trade associations warned the Senate that limiting the capital gains exemption would severely disrupt the U.S. residential real estate industry and impact the well-being of local communities.

Currently, homeowners can exclude from their taxable income up to $250,000 in capital gains ($500,000 for married taxpayers) from a sale of their primary residence. Under the proposals—to qualify for this break—homeowners must have owned and lived in their home for at least five of the last eight years. The current rule requires two of the last five years.

Under both the House and the Senate plans, the required ownership period would move from two of the last five years to five of the last eight years. The House bill also includes a dollar-for-dollar phase-out for families that earn over $500,000 a year.

In a letter to Sen. Orrin Hatch (R-Utah), chair of the Senate Committee on Finance, and Ron Wyden (D-Ore.), the committee's ranking member, ALTA said this provision if enacted "will act as a disincentive for many homeowners to move up or move down as life events occur—expanding family, medical issues, job changes and other life contingencies."

"Among all proposed tax changes that will negatively impact housing and individual homeowners, the one that will affect the broadest segment of taxpayers, regardless of income level, is treatment of their gain on sale," the letter said. "Gain on sale is the individual equivalent to deferring capital gains for reinvestment. If these homeowners were investors, their capital gains could be deferred through tools we use to encourage growth, but under this proposal their tax liability is due in full, unless they go through a complex process to prove why they sold their home. That's not simplification, and it is not fair."

The letter points out that this change would be especially hard on millennials. For the fourth consecutive year, millennials were the largest group of homebuyers, and artificially reducing their ability to generate wealth will alter their desire to purchase a home or move up to a larger one.

"Subtracting 20 percent of the profit from the sale of a first home makes both the prospect and reality of moving up inside of five years financially impossible," the letter states. "By locking younger households into their first homes longer, this tax law change will exacerbate the already tight supply of single family homes, driving prices out of reach for those entering the market." ■

Audio Recordings of ALTA ONE Education Sessions Now Available

Audio recordings of all the Notable Sessions and Engagement Labs held during the 2017 ALTA ONE are now available to ALTA members. The educational sessions focused on team-building, cultivating a business reputation, emerging technology, ensuring profitability and shifting regulatory environment. Check out all the recordings. Available for download are copies of the presentations, handouts and the audio files. You must be an ALTA member and logged in to access the content. To access the recordings and content, go to alta.org/events/past-one.cfm. ■

ALTA 2017 TIPAC Donors

The Title Industry Political Action Committee (TIPAC) is ALTA's voluntary, non-partisan Political Action Committee (PAC). TIPAC raises money to help elect and re-elect candidates to Congress who understand and support the issues affecting the title industry. TIPAC has received $627,555 from 1,189 donors in 2017. Check out who has supported the industry at alta.org/tipac.

CALENDAR

2017 ALTA CONFERENCES

ALTA LARGE AGENTS CONFERENCE
January 21-23
San Diego, CA

HOP LEADERSHIP TRAINING
February 8
Nashville, TN

ALTA SPRINGBOARD
March 20-21
Atlanta, GA

ALTA INNOVATION BOOT CAMP
April 17-18
New Orleans, LA

ALTA ADVOCACY SUMMIT
May 21-23
Washington, DC

STATE CONFERENCES

Alaska
February 9-10
Anchorage, AK

The real estate and title insurance industries are changing at a pace we have never seen before. We are committed to adding new resources, creating real value, and bringing imagination and innovation into all aspects of what we do and how we do it.

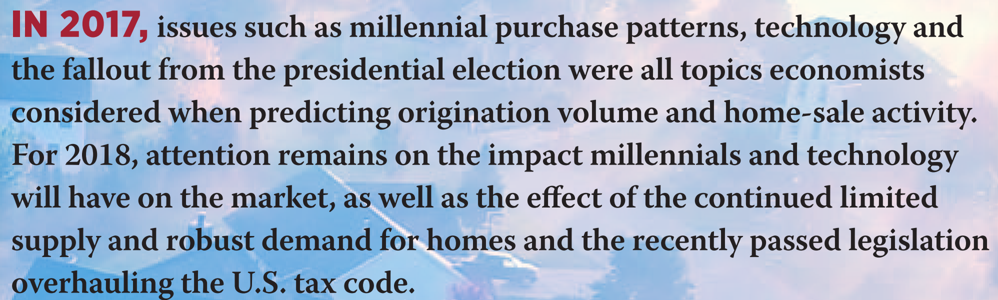
What new ideas can we bring to you?

With you…for what's next

fntg.com/next

Rinse and Repeat?

Purchase Mortgage Volume Predicted to Increase While Refi Activity Continues to Cool and Borrowers Tap Home Equity



IN 2017, issues such as millennial purchase patterns, technology and the fallout from the presidential election were all topics economists considered when predicting origination volume and home-sale activity. For 2018, attention remains on the impact millennials and technology will have on the market, as well as the effect of the continued limited supply and robust demand for homes and the recently passed legislation overhauling the U.S. tax code.

The economic environment has been favorable for housing and mortgage markets. Moderate economic growth of about two percent a year, solid job gains and low mortgage interest rates have fueled that consistency. If these conditions persist throughout 2018, title professionals can expect a market similar to 2017 but with an increase in purchase mortgage volume, continued cooling of refinance activity, and growth in home equity loans and lines of credit.

Based on current conditions, Mike Fratantoni, chief economist for the Mortgage Bankers Association (MBA), said 2018 home purchase originations could increase at nearly double the clip from 2017.

"The housing market has been hamstrung by insufficient supply, with inventories of homes remarkably low, given the home price growth we've experienced," Fratantoni said. "The job market remains strong; demographic trends are quite favorable; mortgage credit is becoming more available to qualified borrowers; and home prices should continue to rise. All the pieces are in place for stronger growth in 2018 and beyond."

The MBA projects 2018 purchase originations to reach $1.17 trillion, a 7.3 percent increase from 2017. Meanwhile, the MBA forecasts a 28.3 percent drop in refinance originations, to $430 billion. Overall, MBA expects mortgage originations to decrease to $1.60 trillion in 2018, from $1.69 trillion in 2017. Looking ahead to 2019, the MBA forecasts total originations to increase to $1.64 trillion, with purchase originations rising slightly to $1.24 trillion and refinances dropping to $395 billion.

Supply and Demand

Frank Nothaft, chief economist for CoreLogic, says a central theme for the 2018 housing market will be the continuing erosion of housing affordability, an issue that will permeate a growing list of American neighborhoods. Already a major concern in many high-cost markets, Nothaft says this will spread to more moderate-cost places across the nation.

One factor that he expects will further weaken affordability is the projected rise in interest rates. The Federal Reserve has signaled its plan to increase its federal funds target, pushing other short-term interest rates up (including initial rates on ARMs), and to reduce its portfolio of long-term Treasury and mortgage-backed securities.

"While fixed-rate mortgage rates remain at historically low levels, they are already up about three-fourths of a percentage point above their record low," Nothaft said. "Fixed-rate loans are forecast to rise in 2018 by at least one-half a percentage point to as much as a full percentage point."

SHUTTERSTOCK/ ELNUR

continue in 2018. The most recent report on the Federal Housing Finance Agency (FHFA) house price index indicates that house prices rose 6.6 percent from the second quarter of 2016 to the second quarter of 2017. In many markets, home price growth has topped 10 percent on a year-over-year basis, reaching over 15 percent in the Seattle metro area. Nothaft reports that when combined with the rise in mortgage rates, the price increase for lower-priced homes translates into approximately a 15 percent rise over the last year in the monthly principal and interest payment for a first-time buyer.

"We expect this trend to continue in 2018," said Nothaft, who also expects the inventory for starter homes to remain low over the next year.

A gradual increase in housing starts and moderate increases in mortgage rates will help to reduce house price growth next year, according to Fannie Mae. The FHFA forecasts housing starts to increase 5 percent in 2018, but more building is necessary to alleviate the affordability challenges in many higher-cost American cities.

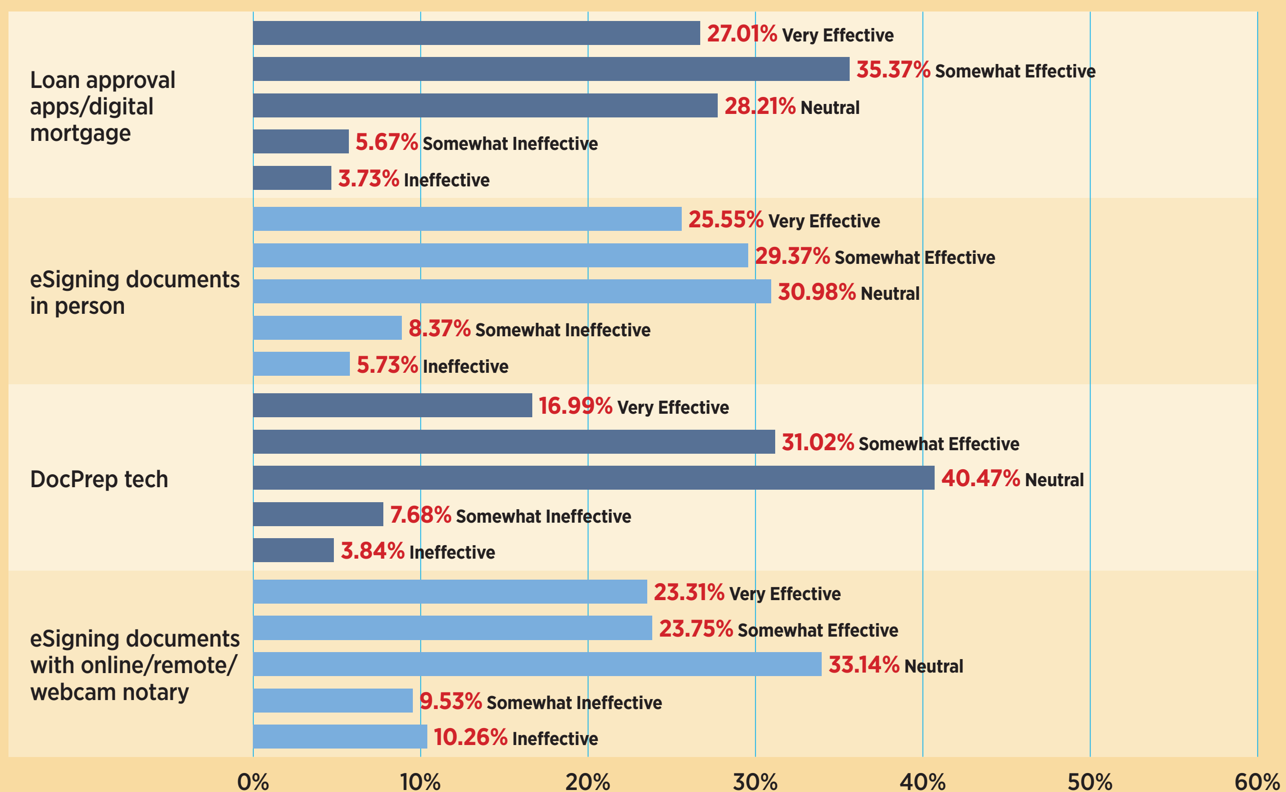
"In most markets around the country, inventory of homes for sale has become so tight that housing is now a game of musical chairs: Nobody wants to stand up from the home they're currently living in and list if for sale, for fear they won't be able to find another home to buy," said Zillow Chief Economist Svenja Gudell. "This inventory crisis leaves few options for millennials, a huge generation just entering the market that genuinely wants to become homeowners, but can't find anything to buy."

Gudell also believes inventory shortages will remain a concern in 2018 and continue to play a role in pushing up home prices. This will force first-time homebuyers to remain on the sidelines because they don't have the benefit of profiting from a prior home sale to boost their down payments and make them more competitive. Gudell says there are 12 percent fewer homes to choose from nationwide than there were a year ago, "and the homes that are available are not accessible across the market."

Through September 2017, 51 percent of U.S. homes for sale were in the top one-third of home values—largely out of reach for typical first-time, millennial buyers, according to Gudell.

Over the past several years, the number of new homes built has remained well below historical norms. Construction has been concentrated in more profitable, higher-price segments. In 2018, Gudell predicts that dynamic will change because builders can't ignore this hungry market.

"They'll respond to the demand of more first-time buyers entering the market by increasing construction of new, entry-level homes," she said, adding millennials will likely move to the suburbs despite being further away from urban job centers.



"Escalating land and construction costs—along with zoning laws—make it prohibitive for builders to add affordable housing in cities near jobs, so they will look to the suburbs," Gudell said. "As a result, that's where millennials and first-time home buyers will flock for the greater variety of homes at relatively lower prices."

Home Sales

Fannie Mae reports that year-to-date total home sales are the highest since 2007. Existing home sales are unlikely to increase much going forward. Limited inventory will remain a persistent problem, and longer-term trends like the aging of the population and declining mobility across all age groups will keep a lid on existing home sales growth. Growth will be primarily driven by new homes sales, which should continue to grind higher with single-family construction. Fannie Mae has forecasted total home sales—the sum of new and existing home sales—to increase about two percent from 2017 to 2018.

Refinance Mortgage Activity

Fannie Mae predicts the refinance share of mortgage activity will decline to 25 percent, the lowest annual refinance share since 1990. Many in the industry are concerned about how low refinance volume could fall.

"If rates spike, we could see extremely low levels of refinance activity," Fannie Mae reports. "For example, from the fourth quarter of 1993 to the fourth quarter of 1994, mortgage interest rates on the 30-year fixed rate mortgage increased about 2 percentage points. In response, refinance activity fell over 80 percent to an inflation-adjusted $40 billion in the fourth quarter of 1994. If rates spiked by a similar amount, we could very well see similar declines.

Even if rates don't spike and remain relatively flat, refinance volumes will likely decline. Last year, Fannie Mae estimated the rate refinance potential for the conventional market. In July 2016, when 30-year fixed mortgage rates averaged 3.44 percent the 30-year fixed rate conventional conforming rate refinance potential was about $800 billion. Fast forward 12 months and refinance potential has been reduced dramatically. Conventional conforming 30-year fixed mortgage rate refinance potential as of July 2017 was down to around $300 billion. Even if rates remain flat, the 30-year conventional rate refinance potential in 2018 will be the lowest it has been in years, Fannie Mae reports.

Some borrowers refinance to shorten their loan term. Freddie Mac's second quarter 2017 Quarterly Refinance Statistics show that the share of refinance borrowers that shortened their loan term was 35 percent during the quarter and has been over 30 percent since the first quarter of 2013. Even if rates are up from last year, they are very low by historical standards and many borrowers may choose a shorter term, so they can pay down their principal faster.

Another source of additional refinance volume is borrowers refinancing out of FHA loans and into conventional loans. In 2017, CoreLogic estimated that as many as 250,000 borrowers might refinance out of an FHA loan into a conventional loan. Finally, some borrowers may opt to tap their home equity and take a cash-out refinance.

Market Forecast Highlights

Here's a look at some projections from the MBA:

$1.597 trillion

The MBA projects mortgage originations to decrease to $1.597 trillion in 2018, down from $1.688 trillion in 2017.

1.289 million

Housing starts are expected to increase steadily over the next few years, rising to 1.289 million in 2018 from 1.195 million in 2017. According to the MBA, housing starts should push to 1.376 million in 2019 and 1.438 million in 2020.

5.486 million

Existing home sales are expected to show steady increases in the MBA forecast, with existing home sales rising slightly to 5.486 million units, seasonally adjusted, from 5.440 million in 2017. Existing home sales are expected to rise further to 5.810 million in 2019 and 5.991 million in 2020.

623,000

New home sales are also expected to improve, rising to 623,000, seasonally adjusted, in 2018 from 584,000 in 2017 and to 662,000 in 2019 and 696,000 in 2020.

4.6%

Interest rates for 30-year fixed-rate loans should rise slowly to 4.6 percent in 2018, 5.0 percent in 2019 and 5.3 percent in 2020.

2.0%

On the economic front, MBA projects overall economic growth at 2.0 percent for 2018, slowing slightly to 1.9 percent in 2019 and 1.8 percent in 2020.

4.0%

MBA projects monthly job growth will average 125,000 per month in 2018, and that the unemployment rate will decrease to 4.0 percent by the end of 2018.

Borrowers Tap Home Equity

For existing homeowners, rising home prices have increased home equity. Homeowners looking for home improvement, to consolidate other debt or pay off student loans can cash-out home equity to do so. Under a cash-out refinance, homeowners refinance an existing mortgage into a new one with a higher principal balance to get cash in hand. Alternatively, borrowers could take out a second lien, typically through a Home Equity Line of Credit (HELOC).

According to Fannie Mae's Quarterly Refinance Statistics, the dollar volume of equity cashed out was $15 billion during the second quarter of 2017. This is up $1.2 billion from the first

Fannie Mae Economic & Housing Market Forecast

FORECASTED FIGURES

	2016				2017				Annual Totals		
Indicator	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018
Real GDP (%)	0.6	2.2	2.8	1.8	1.2	3.0	2.1	2.3	1.8	2.2	2.2
Consumer Prices (%)	0.1	2.3	1.8	3.0	3.1	–0.3	2.1	2.2	1.8	1.8	2.4
Unemployment Rate (%)	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.3	4.9	4.5	4.5
30-Year Fixed Mtg. Rate (%)	3.7	3.6	3.5	3.8	4.2	4.0	3.9	3.9	3.7	4.0	4.4
5/1 Hybrid Treas. Indexed ARM Rate (%)	2.9	2.8	2.8	3.0	3.2	3.1	3.1	3.1	2.9	3.1	3.7
10-Year Const. Mat. Treas. Rate (%)	1.9	1.8	1.6	2.1	2.4	2.3	2.2	2.2	1.9	2.3	2.6
1-Year Const. Mat. Treas. Rate (%)	0.6	0.6	0.6	0.8	0.9	1.1	1.3	1.4	0.7	1.2	1.7
Housing Starts	1.15	1.16	1.15	1.25	1.24	1.17	1.21	1.26	1.17	1.22	1.33
Total Home Sales	5.88	6.04	5.97	6.11	6.24	6.16	6.10	6.20	6.01	6.18	6.30
FMHPI House Price Appreciation (%)	1.5	1.4	1.6	1.7	1.7	1.7	1.3	1.3	6.4	6.3	4.9
1–4 Family Mortgage Originations											
—Conventional	$295	$432	$466	$458	$290	$377	$388	$321	$1,651	$1,376	$1,327
—FNA & VA	$95	$113	$134	$132	$107	$113	$112	$ 92	$474	$424	$368
—Total	$390	$545	$600	$590	$397	$490	$500	$413	$2,125	$1,800	$1,695
Refinancing Share—Originations (%)	51	44	47	50	42	26	32	32	48	33	25
Residential Mortgage Debt	1.1	3.3	4.1	3.6	2.5	4.0	4.2	4.3	3.1	3.8	4.7

quarter, but down from $19.1 billion in the fourth quarter of 2016. As rate refinance volumes wane, the share of refinances that involve cash-out has increased. Cash-out activity, both as a share of total refinance activity and in dollars is well below levels reached last decade. Homeowner equity has increased to $13.7 trillion in the first quarter of 2017. Fannie Mae reports that as home prices keep rising, cash-out activity is likely to also rise.

"If mortgage rates rise or remain flat, cash-out refinance activity will become an increasingly large share of total refinance activity," Nothaft said. "Our equity extraction estimates are only the portion of refinances that are cashed-out. Typical cash-out refinances result in a loan amount around three to five times as large as equity cashed out. If cash-out equity extraction averages $20 billion a quarter, cash-out refinance activity would contribute about $300 billion worth of refinances each year. But even if the share of cash-out refinance activity increases dramatically ($300 billion would be about 75 percent of total refinance activity), the level of overall cash-out activity will likely remain well below the levels we saw last decade and mortgage debt growth will remain modest by historical standards."

Meeting Customer Expectations

The real estate finance industry continues to make investments to meet the digital expectations of the millennial homebuyer. According to data from PitchBook, over $1 billion of venture capital was invested in real estate start-up companies in 2016 and more than $800 million was invested in just the first three quarters of 2017. The question is whether the technology investments are making a difference to the homebuyer experience.

Title agents and real estate professionals surveyed in First American's fourth-quarter Real Estate Sentiment Index (RESI) were asked if they thought millennial homebuyers were better prepared for the home-buying process because of their access to real estate-related technology. Nearly half agreed millennials are better prepared, but a third believed they are not.

Respondents were also asked to rate how effective various technologies were in helping millennial homebuyers close their real estate transactions. The following list ranks the technology by percentage of respondents who rated the technology either very effective or somewhat effective:

- loan approval applications/digital mortgages (62 percent)
- e-signing documents with an in-person notary (55 percent)
- document preparation (48 percent)
- e-signing documents with online/remote/webcam notary (47 percent)

"Title agents and real estate professionals saw clear value in automated loan approval and electronic data collection technology to facilitate the digital mortgage and reduce the burden of document signing," said Mark Fleming, First American's chief economist. "Interestingly, the difference in favorable responses to the two different forms of e-signing—in-person or online, remote and webcam—highlights the current debate over the role of a notary public in the closing process."

Investments in fintech are making steady progress toward improving the home-buying experience for the digitally driven millennial homebuyer, Fleming added. Overall, title agents and real estate professionals were confident that transaction volume will grow in the coming year.

"The increase in optimism was primarily driven by the rise in expectations among survey respondents for refinance volume growth, possibly indicating confidence that low rates will continue to benefit the real estate market," Fleming said. ■

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By Logan Coulter and Gerald Coulter

Time to Employ a Real Sales Strategy?

A number of agents have struggled to win new business in the purchase market. But is it really the fault of the sales rep? What's your strategy for winning new business?

AT LEAST ONE YEAR INTO THE RETURN OF THE PURCHASE MORTGAGE MARKET, AND SOME FOLKS STILL DON'T GET IT. Yes, a purchase market requires harder work, more prep time for sales and marketing as well as the ability to network. But successful sales people—especially in the title industry—shouldn't really be that affected by a shift in markets. Their tactics, products and, to some degree, even their target market might shift. But their sales strategy? It should be almost identical in purchase, HELOC, refinance or even REO markets.

And yet, we hear too many stories of owners and executives turning over their sales teams over and over. They're not making their numbers. They're not growing the footprint. They're not bringing in big enough clients—or any new clients at all. There's no doubt—what should in many ways be considered a "normal" market is causing way too many title agents to struggle. The only thing that's happened is that the fish have stopped jumping into the boat. Yet too many agencies aren't equipped to help their sales agents succeed. It all boils down to this. The truly great sales reps will always be great, no matter what the economy is doing or what their product is. Why? It's pretty simple: The great reps all have a disciplined strategy that puts them in front of real buyers. Here's what we're seeing out there.

Overbroad Strategy or Lack of Strategy Altogether

It's not a sales strategy to give a sales person a quota and tell her what kinds of prospects to find. Nor is it a strategy simply to hire more sales reps. That's like assuming you'll triple your refinance orders by hiring production specialists who specialize in refi. These folks still need management. They need a methodology. You don't just send a closer to settlement with the instructions to "get 'er done," do you? But many do just that with sales teams. And while we're all, ultimately, judged by sales numbers, this methodology presumes way too much to be a true measure of your sales teams' worth. But more on that later.

> *"So, if you're the type of title agent who feels the consumer has little to do with your spot in the transaction, think again. The best agents know how to market services to the consumer, and do it well."*

Most of the sales "strategies" we learn of start at the point of referral. We know of very few agents who actually have a methodology for cultivating and harvesting new leads and networks. At most agencies, the lead generation strategy is usually rooted in quick fixes or good old fashioned (and highly ineffective) cold calling. Sales may well be a numbers game, but these lead generation "strategies" ensure infinitesimally low numbers. Almost anyone can turn a warm lead or referral into a sale. But in more competitive markets, such as this, the best agencies are building their own leads. That has to start with more strategy than simply identifying a successful brokerage. How will your sales team gain entry? How will they earn a reason for a broker or agent to have the conversation? What kind of offense are you running?

When we say "offense," we mean that good sales teams use proven methods for identifying, cultivating and closing leads. Methods the whole team can use. Sending a link to a story about a title agency is not an offense. Don't get us wrong. A good offense does allow room for an "audible" and some flexibility for the individual sales rep. But it's also just as necessary to give a sales team a reasonably constructed means to approach prospects. Failing to do so is about as effective as sending an NFL offense onto the field without plays. Sure, some of the best athletes would probably earn some yards. Maybe a defender would fall down and give the offense a touchdown. But which team is going to win more games? The team with no offense, or the team running one?

Oh, and by the way, if you're convinced your title product or customer service alone will win the day—that it will "speak for itself," think again, and think hard. This is the part where we're obliged to talk about the salesman with the box of doughnuts. For your agency to even be in play today, a lender or Realtor will assume your agency will run through walls to fix errors, untangle tangles and get the job done quickly and smoothly. That's just a cost of doing business. What else can you do for them?

So how are you going to help your prospect? Are your salespeople armed with legal ways to help your prospects convert their prospects? The best way to a client's heart is to help him/her win new clients of his/her own. We've found over time that a sales rep can take a prospect to the most expensive lunch without winning any new business. Either way, both parties only satisfy their "hunger" for a brief time. But, if that same sales rep partners teaches that prospect how to grow his or her business and make more money, the prospect can feed his/her family for years to come. At that point that sales rep will get every deal the new-found client can direct. So, if you're the type of title agent who feels the consumer has little to do with your spot in the transaction (closings notwithstanding), think again. The best agents know how to market services (their own and those of Realtors and lenders) to the consumer, and do it well.

Putting the 'Count' in Accountability

Many of the agents we know speak approvingly about accountability in sales. This is good. Most sales professionals are given perks and luxuries other employees might not get, as long as they "meet the numbers." They should have to earn those.

However, the flaw in tying final sales to salespeople is that it's not a true metric. In western states, we see example after example of sales reps being credited for sales truly made possible by escrow officers. Some sales, let's face it, simply fall into our laps. There are countless other examples to prove that, in many cases, a salesperson's true value to a company needs to be measured by more than final sales numbers.

If you're familiar with the concept of metrics by KPI (key performance indicators), you know that this kind of approach can be applied to sales teams. Let's face it. There's a huge difference between a sales team that ran into bad luck or poor support and a sales team that just can't get through the prospect's front door. Yet, by most of the methodologies used in today's title world, both look the same on a sales report in a boom market. Most managers would far prefer to be working with the former team than the latter.

Having a more complex form of accountability also cuts costs. You likely underestimate what it costs you in terms of time, opportunity cost and more when you're quick to "turn 'em and burn 'em" with your sales reps. Unless you're riding along with your reps most days, chances are that the rep on the verge of making inroads on multiple sales looks a lot like the most clueless of reps if you're not using complex indicators to measure sales performance. But in using some of the simple metrics so common to the title industry, you'd lose both quickly—one to the unemployment line, and one to a key competitor.

We understand that "the way we've always done it" carries a lot of weight in our industry. We've seen it work. We understand that years of success are hard to argue with. But we're in a different era now. Although it's still a relationship-based industry, the basis of those relationships is changing. You need a plan to be in front of your prospects—and even to know who those prospects are. That doesn't start with the individual sales rep. It starts with the resources, and the strategy you teach them. It starts with an offense. ■

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10 Cybersecurity Threats and Trends for 2018

Title and Settlement Companies Must Remain Vigilant Protecting Data and Money

The coming year will see a massive escalation of cybersecurity risk, warns Christopher Skinner, chief executive officer of technology security firm SpiderOak. The threats will be driven by both state-sponsored groups and individual bad actors.

"AS ORGANIZATIONS AND INDIVIDUALS BECOME INCREASINGLY RELIANT ON IOT (INTERNET OF THINGS) FOR CRITICAL FUNCTIONS, THE RISKS THAT WE ARE TAKING ARE BECOMING GREATER AND GREATER," Skinner said. "Attack surfaces are exploding—the nearly four billion people online worldwide means four billion different entry points for criminals. We trust our devices and systems to drive our cars, deliver vital medical treatments, and protect our homes and supply chains, but these have never been more insecure."

The following are 10 threats and trends to look out for across business, governmental and personal arenas, according to Skinner.

1. Software Updates—The New Trojan Horse

When you receive an update from a software vendor to install an update, how do you know that update is real? Criminals are using the normal software update process to get companies to infect all of their clients, which then affects everyone down their software supply chain. In fall of 2017, the popular CCleaner application—designed to optimize software performance on computers—was breached by hackers who installed a back door in the software, affecting more than two million users. "This is the kind of breach that destroys trust between users and software providers," says Skinner, "and makes consumers want to avoid doing business with the provider in the future."

2. Installing Spies on Your Phone

When Russia wanted intelligence on NATO alliance plans in the Baltic region, it turned to a new kind of secret agent: the soldiers' own smartphones. Troops from the U.S. and other NATO countries found evidence of their personal phones' being accessed from a Russian IP address. "Gaining access to your phone essentially puts its functionality in the hands of a remote user—who can geolocate you, take pictures of where you are, eavesdrop on your conversations and gain access to personal information that can be used to intimidate you," says Skinner.

3. Two Things are Certain: Death and Tax Scams

SpiderOak predicts that the 2018 tax season will see more fraudulent returns than ever—driven largely by the Equifax breach affecting 145.5 million people. "Fake tax returns will likely explode this year given all the Social Security numbers now exposed," says Skinner. While Chinese hackers remain the prime suspects in the Equifax case, taxes are a favorite target of another state: Russia. On the eve of this year's Constitution Day in the Ukraine—during which the country celebrates its independence from the Soviet Union—accountants in the former USSR were hit with a massive cyberattack, the largest in Ukraine's history. The virus infected the software that businesses are required to use to file tax returns, causing havoc for both the companies and the governmental computers to which they are connected.

One Hack, Many Votes

"If you can plug it in, you can hack it, and this puts the 2018 elections at risk," says Skinner. "The move to prevent election meddling is far behind where it needs to be, and there are vulnerabilities everywhere from the storage of voter rolls to easily hackable electronic voting machines." Skinner notes that 21 states' voting systems were targeted by Russian hackers in the 2016 election cycle, but "this process starts far ahead of the election itself—it's happening now." ■

4. PsyOps on your Facebook Feed

Congressional testimony from Facebook, Google and Twitter in November revealed the extent of Russia's influence campaign on social media during the last presidential election cycle. More than 126 million of Facebook users were served Russian propaganda, the company finally admitted, after months of downplaying the extent of the threat. "The volume of fake news stories was clearly too large for the companies to handle, even with the extensive use of third-party contractors hired specifically to address this threat," says Skinner. "If even tech companies with huge resources are having trouble controlling the spread of fake news and accounts, most other technology and media companies will be even more at risk."

5. Criminals are Patient

"One of the most frightening things about the breaches at Equifax, Target and elsewhere is what we haven't seen—yet," warns Skinner. Once criminals have stolen the data they need— including Social Security numbers, birthdates and other personal details—they can sit on the data for months or years until people let down their guard and turn off their credit freezes. "Your data can just be sitting out there on the dark web, waiting to be sold or used, well after you think you're safe."

6. Passwords are Failing

"The most common password last year was '123456'—that's a problem," Skinner says. "Human nature wants to simplify, so we use weak passwords and the same password for multiple sites." But, he says, much as 9/11 forever changed the way we travel, major cybersecurity breaches are pushing companies to adopt much more complex protocols around digital security. "Three billion Yahoo accounts and passwords being hacked reflect the catastrophic implications of a breach, and companies are realizing that passwords alone aren't going to cut it. There has to be a one-two punch of both authentication and encryption to secure your data."

7. Compliance Gets Your Security Up-to-Date—10 Years Too Late

"The problem with regulations is that they address what's gone before—not thinking about what's to come," says Skinner. "Hackers are forward thinking and creative, staying far ahead of current security protocols. All it takes is one employee who isn't trained in how to safeguard his or her computer and log-ins. The smart hacker takes advantage of this weak link, enters through that employee's credentials and then has access to your whole system. Checking the boxes on compliance doesn't begin to secure systems and data the way they need to be."

8. Too Many People Have the Master Key

"Imagine if a landlord gave a master key to all apartments to every single resident in the building—that's how most companies' systems are structured," says Skinner. "When one computer or set of credentials is breached, you have now opened the door to the whole system. In the vast majority of companies, employees have far too much access to information that they don't even need. And given the interconnected systems companies have with their vendors, and then their vendors' vendors, they don't even know how far out their connected system stretches. This opens companies up to so many risks that they don't even know about."

Breach Fatigue

"A real problem with all the bad news we see about hacks and leaks and breaches is that we're becoming desensitized to them," Skinner says. "It's easy for employees to get complacent, and the consequences of this can be extremely harmful to a business. Even upper management can deprioritize security when trying to get out a release or an update before an important sales deadline, and CEOs and boards need to make sure that no corners are cut that can put the company at greater risk. Ultimately, cybersecurity is going to be only as strong as the top of the house makes it." ■

Tips to Prevent Cyber Fraud

Following good cyber hygiene is important on every transaction. It's vital to be prepared for cyberfraud attempts as it's no longer "IF," but rather "WHEN" a cyber attempt will target you and your data. Here are 10 tips to help protect your company:

1. Create a log of all approved parties' phone numbers at the start of a transaction.
2. Avoid using free, web-based email accounts for business communications.
3. Prior to closing, execute an agreement with the seller/borrower indicating the method of funds transfer: check or wire.
4. Transactions that result in a large cash payment to a refinance borrower or seller are highly susceptible to attack.
5. Question and confirm by phone with approved parties any deviation to the funding agreement; changes are not common and may indicate fraud.
6. Confirm wiring instructions by phone with approved parties prior to sending.
7. Confirm receipt of wired funds by phone with the intended recipient.
8. Practice good cyber hygiene: keep antivirus software up-to-date, don't click suspicious links and use strong passwords.
9. Slow down and stay in control; a slow, confirmed closing is still acceptable.
10. If you suspect fraud, act immediately; contact your bank and appropriate authorities.

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The Importance of Valuation: How to Avoid Running Afoul of RESPA's Anti-kickback Provisions

By Jon P. Klerowski

Part one of this article, which appeared in the December 2017 edition of TitleNews, provided an overview of the legal and compliance climate surrounding RESPA's prohibitions against kickbacks and referral fees. Part two provides recommendations on how to support and document fair-value determinations to avoid risk of non-compliance.

Fair-value analyses—conducted contemporaneously with the execution of an agreement or transaction—are a critical aspect of compliance with Section 8(a) of the Real Estate Settlement Procedures Act (RESPA) as they can demonstrate that

1. any payment for compensable services rendered is reasonably related to the value of those services, and
2. any payment related to ownership interests of an affiliated business arrangement (ABA) is at fair market value of the interest being bought or sold. Although the Consumer Financial Protection Bureau (CFPB) undertakes a thorough and critical review of valuation methodologies when it does choose to consider a RESPA 8(c) exception analysis, the fact remains that there are widely-used and accepted valuation approaches which can support value determinations.

Below we use accepted valuation concepts and describe an appropriate methodology to value services to demonstrate that when payments are made, they are appropriate and reasonable given the services performed, and determine the fair value of the ownership interests of an ABA that may be bought and sold. In so doing, we note that while fair market value may not always be precise, a relatively narrow range can be determined. Importantly, the fair value analyses are more supportable in the current regulatory environment when the following legal principles are considered:

- A settlement service provider should not pay more than fair market value for marketing services or ownership interests in a service business if the provider is able to receive referrals from the marketer or the business. This is because the excess would be a "thing of value" and if the marketer

or the business that is purchased has a pattern of sending business to the provider, there could be an inference that the payments were excessive to compensate for referrals. In that instance, both the giver and receiver could be equally liable.

- Likewise, a settlement service provider should not offer free or below-market-rate services to a person in a position to make referrals to that provider. The free or subsidized services would be a "thing of value" that could be scrutinized as being given in exchange for referrals. It then follows that persons in a position to make referrals and who expect to do so should not agree to receive excessive payments, discounted services or other things of value as that would also raise an inference of compensation for referrals.

Thus, keeping in mind these points of sensitivity, standard valuation techniques can be applied to demonstrate value relating to the various RESPA scenarios that industry participants typically confront.

Valuation Methodology for Service Agreements

Service Agreement Background

Service agreements are arrangements between real estate settlement service providers where one party provides marketing services for another. Typically, a real estate agent or broker provides services for other settlement service providers such as mortgage lenders or title insurance. Service agreements generally include a wide-range of marketing services in exchange for a monthly fee. Typical services include:

- Mailings: Email and direct mail marketing campaigns.
- Web-based advertising: Banner advertisements or website links displayed on the marketer's website.
- Signage: Displays at real estate sales offices, real estate listings or other locations.
- Provision of other materials: Brochures, flyers, business cards and other printed materials.

Additional less common services include providing office space, consulting, sponsorships and work-share agreements, which typically involve subcontracting part of the services one entity provides to another service provider.

Valuation Approach

As service agreements usually have multiple services (or elements) exchanged for a stated fee, the main concern is determining the value of each element to ensure that the total payments are commensurate with the services provided. Generally accepted financial reporting standards provide guidance for valuing arrangements with multiple deliverables in ASC 605-25, *Multiple Element Arrangements.* This GAAP reporting standard provides a relevant framework for measuring and allocating arrangement consideration amongst the various deliverables based on a hierarchy of available evidence for each element's stand-alone value. The hierarchy in ASC 605-25 is as follows:

1. Vendor-specific objective evidence
2. Third-party evidence
3. Management's best estimate

An approach using a similar hierarchy to demonstrate value can be applied to the multiple elements of service agreements. Notably, while the valuation approach described in greater detail below is rooted in GAAP, it is also consistent with the standard business valuation technique known as the market approach. Put simply, the market approach utilizes observable factual evidence of arm's-length transactions to derive indications of value. Similarly, the valuation approach applied to service agreements compares each service element to similar observable market evidence to derive value.

Valuation Approach Applied to Service Agreements

As is typical with most service agreements, the approach described below assumes a stated monthly fee in exchange for multiple types of services; however, the concepts and methodology can be tailored to apply to other fee structures as well.

Step 1 – Apply the ASC 605-25 evidence hierarchy to determine each element's stand-alone value:

First, determine the distinct services (elements) to be provided under the service agreement. Then, apply the ASC 605-25 evidence hierarchy to each element to obtain the highest-level evidence of value (i.e. if vendor-specific objective evidence exists, it must be used). Each level of the evidence hierarchy is described in more detail in the table below.

Step 2 – Measure the expected volume of services to estimate the total value of services to be provided:

Once the estimated value for each element has been determined, the next step is to estimate the volume of services to be provided. At this point, the estimated value for each element can be calculated as the per-unit value multiplied by the expected volume.

For example, suppose that a service agreement calls for two email marketing campaigns per month, and vendor-specific objective evidence suggests that an email campaign of that particular nature is worth $5,000. The estimated monthly value for the email campaign is $10,000.

Next, the estimated value for each element would be summed to arrive at the service agreement's total estimated monthly value. This value estimation process should be conducted with input from both parties prior to establishing the monthly fee in the service agreement (the expected volume should be documented as well). It is advisable to set the agreed-upon monthly fee below the expected value due to the judgments and estimates used in the valuation process, and for potential instances where the volume of services provided is less than anticipated. Setting the monthly fee below the expected value can also reduce the risks associated with the appearance of kickbacks or referral fees.

Step 3 – Monitoring activities and value reassessment:

The final step in the valuation approach is the ongoing monitoring of services and reassessment of value.

This essential step entails regularly obtaining tangible supporting evidence for services performed, along with the associated activity levels. Examples of supporting evidence include: screenshots of web-based advertising with timestamps, requiring marketers to "CC" on email campaigns, or a monthly written statement of services provided. Once the evidence is gathered, the value of the services provided should be tabulated to confirm that the value provided is greater than the monthly fee. This process of obtaining supporting evidence is necessary to ensure that the monthly fees are a quid pro quo for the volume of services provided and mitigates the appearance of kickbacks or referral fees.

Evidence of Value Hierarchy

Level	Details
Level 1: Vendor-specific objective evidence	Description: Vendor-specific objective evidence is the price charged for a deliverable when it is sold separately.
	Method: Both parties to the service agreement review internal records and past transactions for evidence of selling or purchasing the element, or similar elements, on a stand-alone basis. The following factors should be considered when determining if the marketing elements are similar: • Circulation, exposure, or saturation within an intended market. • Timing (time of day, day of week, daily, weekly and season of the year). • Prominence (page on web site, section of periodical, location on page and size of advertisement). • Demographics of readers, viewers or customers. • Duration (length of time advertisement will be displayed).
Level 2: Third-party evidence	Description: Third-party evidence is the price of any third-party's largely similar services in stand-alone sales to similarly situated customers.
	Method: Both parties review external data for evidence of third-party transactions or current prices for similar marketing services. Third-party evidence may be obtained from marketing agencies, news/internet media or other sources.
Level 3: Management's best estimate	Description: Management's best estimate is the price at which it would expect to sell the deliverable on a stand-alone basis.
	Method: This method involves management's consideration of existing internal information (such as costs and margins for other services) and external data (such as market prices for similar services) to arrive at the price at which it would expect to sell the element on a stand-alone basis. Due to the highly judgmental nature of this evidence, this approach is not recommended as it could be challenging to withstand CFPB scrutiny upon examination.

The estimated value for each element should be reassessed periodically to monitor changes that may impact the valuation analysis. The reassessment should occur at least annually, or upon a material change in the services provided or marketplace.

Valuing Ownership Interests in ABAs

Under RESPA, an ABA is a business arrangement in which at least one owner of a real estate settlement service provider directly or indirectly causes a referral of business to that provider and shares in the resulting profits. ABAs present important valuation issues—not only when there is an exchange of a thing of value with an owner who is in a position to refer business to the joint venture (or receive business from the joint venture), but also if there is a purchase of an ownership interest in an existing real estate settlement provider with an earnings track record. (When an ABA is first established and is capitalized with cash payments, as is often the case, few valuation issues are presented. However, when an ABA is established with non-cash assets contributed by each party, the fair value of the contributed assets must also be analyzed.) In the latter case, there are three generally accepted valuation approaches which can be used to determine the fair value of the ownership stake: the income approach, market approach and asset approach. Notably, these approaches are interrelated and not independent of each other.

The general concept of the income approach is that the value of a business, business interest or asset is the sum of the expected future benefits discounted back to a present value at an appropriate discount rate. Thus, the two most important inputs of an income approach analysis are projected future benefits (typically net cash flow), and a discount rate appropriate for the expected risk of the future income stream. Importantly, this approach can be applied to both controlling and non-controlling interests, which makes it quite useful in valuing ownership stakes in ABAs.

The market approach uses observable market data for prices of other similar companies (or interests in companies) to derive indications of value—typically data regarding stock prices of public companies or merger and acquisition prices of entire companies (or divisions of companies). When using this approach, it is important to ensure that only arm's-length transactions are considered for the comparison, reflecting that the buyers and sellers were acting in their own self-interest. If there are sufficient, comparable public companies or arm's-length transactions to consider, the market approach provides a useful framework for valuing ownership interests in ABAs.

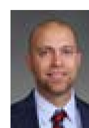
The asset approach is based on the premise that the value of a business can be associated with the productive assets of a business. The basic premise is that the value of a business is equal to the difference between the fair market value of its assets and liabilities. The asset approach is most relevant to asset-intensive companies and holding companies, whereas most ABAs are set up as service or operating companies, which generally get the bulk of their value from intangible assets such as brand names, trademarks or customer lists. These types of businesses are generally valued using the income or market approach due to their ability to generate earnings and cash flow. However, the asset approach may still be useful because it can provide a value for the net tangible assets contributed to a joint venture.

Each of the three approaches described above should be considered when valuing ABA transactions, including establishing joint ventures and buying or selling ownership interests. Similar to demonstrating value for the multiple elements of service agreements, the most important aspect of the valuation analysis under any approach is obtaining evidentiary support and documenting assumptions in order to demonstrate value contemporaneously with the execution of any ownership transaction or establishment of a joint venture.

In Summary

Due to the CFPB's continued focus on RESPA's prohibition of kickbacks and referral fees, industry participants must pay particular attention to arrangements that are most susceptible to Section 8 scrutiny: Service agreements and ABAs. Importantly, supportable fair value analyses (conducted contemporaneously with the execution of an agreement or transaction) are a critical aspect of RESPA Section 8 compliance as they can demonstrate that any payment for compensable services rendered is reasonably related to the value of those services, and any payment related to ownership interests of an ABA is at fair market value of the interest being bought or sold.

Service agreements and ABAs have inherent legal and compliance risk due to RESPA's restrictions on mortgage and real estate industry participants providing or accepting kickbacks and referral fees. However, properly executed services agreements and ABAs are mutually beneficial to settlement service providers and real estate agents alike. The valuation approaches described above, along with the necessary supporting documentation and monitoring, provide a framework for establishing service agreement programs and ABAs where the benefits are preserved and the RESPA compliance risks are mitigated. ■



JON P. KLEROWSKI *is a partner at Floyd Advisory and is a certified public accountant (CPA), a certified fraud examiner (CFE) and is accredited in business valuation (ABV) by the American Institute of Certified Public Accountants.* *Klerowski acknowledges Marcus B. Hemenway and Derek J. Miller for their contributions to this analysis.*

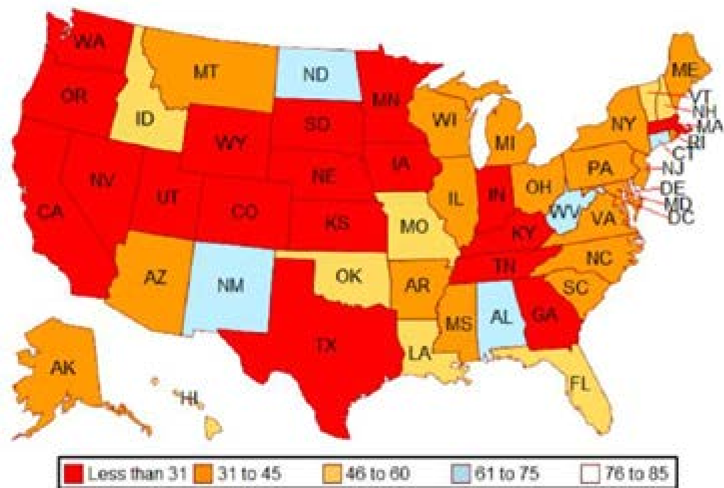
Most Common Reasons for Closing Delays

NEARLY THREE QUARTERS OF HOME SALES CLOSED ON TIME IN OCTOBER, WHILE 25 PERCENT WERE DELAYED GETTING TO THE SETTLEMENT TABLE.

According to the latest National Association of Realtors Confidence Report, title and deed issues were the fourth-leading cause of closing delays, responsible for 11 percent of the total. The survey is based on responses from more than 3,500 real estate professionals. The report showed that only 2 percent say a contract was terminated completely.

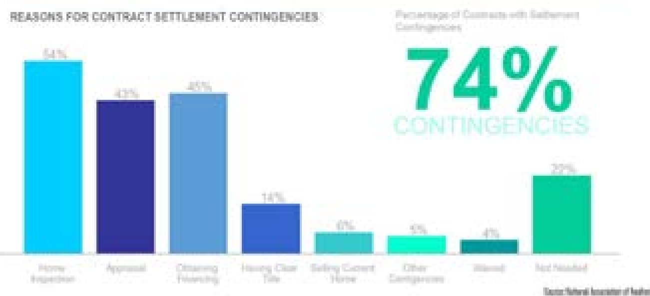
Here's a look at the top problems that led to delayed settlements:

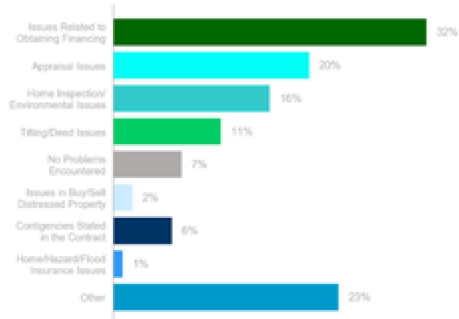
- Issues related to obtaining financing: 32 percent
- Appraisal issues: 20 percent
- Home inspection/environmental issues: 16 percent
- Title/deed issues: 11 percent
- Contingencies stated in the contract: 6 percent



The most common contingencies pertained to home inspections (54 percent), obtaining financing (45 percent) and getting an acceptable appraisal (43 percent).

The report also found that cash sales made up 20 percent of all transactions, while 22 percent of sellers offered incentives such as paying for closing costs (10 percent), providing a warranty (10 percent) and undertaking remodeling (4 percent).





ClosingCorp Reports Average Mortgage Closing Cost Data

Survey Reinforces Need for Education as Consumers Surprised These Fees Even Exist

THE AVERAGE NATIONAL CLOSING COSTS TOTALED $4,876, ACCORDING TO A RECENT SURVEY RELEASED BY CLOSINGCORP.

This represents the average closing costs, including lender's title, owner's title, settlement, appraisal, transfer taxes (where applicable), recording fees and other costs including inspection (pest, roof and home) services and land surveys. This information is compiled using real rates and fees as reported by more than 20,000 real estate service providers in the ClosingCorp network.

It shows the states with the highest average closing costs were:

- District of Columbia ($12,573)
- New York ($9,341)
- Delaware ($8,663)
- Maryland ($7,211)
- Vermont ($6,839)

The states with the lowest closing costs were:

- North Carolina ($3,206)
- Iowa ($3,138)
- South Dakota ($2,996)
- Indiana ($2,934)
- Missouri ($2,905)

"Closing costs can vary significantly, depending on the state or county a homebuyer lives in. For example, five counties in New York—Kings, Queens, Bronx, Richmond and Suffolk—had the highest closing costs, going well above the national and state average, due to having some of the highest transfer taxes in the country," said Bob Jennings, CEO of ClosingCorp. "Of course, many homebuyers are still surprised closing costs are even required—making it vital to keep educating borrowers and helping lenders improve the accuracy of their loan estimates in order to eliminate any surprises."

According to ClosingCorp, median fees are derived by running preconfigured loan scenarios against the verified rates and fees data it maintains for service providers and tax authorities with coverage in every county. The preconfigured loan scenarios are based on different loan types, loan purposes and loan amounts in $25,000 increments up to $100,000, then in $100,000 increments up to $20,000,000. The results of running the preconfigured loan scenarios and application of the endorsement rules generates the median fees for every county. The results at the county level are rolled up to the core-based statistical area (CBSA) level using the number of housing units per county to create a weighted average. ■

CBSA	Average Purchase Price	Average Total Closing Costs
New York-Newark-Jersey City, NY-NJ-PA	$418,833	$9,046
San Francisco-Oakland-Hayward, CA	$779,526	$8,907
Dover, DE	$216,700	$8,147
Washington-Arlington-Alexandria, DC-VA-MD-WV	$470,309	$8,065
Reading, PA	$164,000	$7,863

CBSA	Average Purchase Price	Average Total Closing Costs
Muncie, IN	$104,900	$2,785
Marion, IN	$84,250	$2,813
Kokomo, IN	$119,750	$2,831
Indianapolis-Carmel-Anderson, IN	$169,215	$2,878
Jefferson City, MO	$136,122	$2,903

ALTA Members GIVE BACK

Charitable giving continued its upward trend in 2016, as Americans gave an estimated $390 billion to charitable causes. This was the third year in a row total giving reached record levels. If giving back by ALTA members is any indication, 2017 was another strong year for generosity.

In Idaho, Boise-based Alliance Title & Escrow Corp. held its sixth-annual Closing the Hunger Gap Food Drive. Alliance Title collected 25,894 pounds of food items and raised $41,558 in monetary donations from employees and customers throughout Idaho, Montana and Washington, which marks the company's largest ever funds donation. The monetary and food donations benefited food banks and non-profit organizations local to each of Alliance's 25 branches.

Since its inaugural year in 2012, Alliance Title's company-wide Closing the Hunger Gap campaign has donated 156,226 pounds of food and $164,958 to local food banks in Idaho, Montana, Washington and Wyoming.

Meanwhile in Nevada, Western Title Co. was recognized for its efforts and was named a finalist in *Northern Nevada Business Weekly's* 2017 Reader's Choice Best of Business as one of the most philanthropic companies in Northern Nevada.

"Companies, including Western Title, were picked from a survey conducted earlier this year," said Sally Roberts, content manager for the Northern Nevada Business Weekly. "The idea is that companies nominated

Members of Alliance Title & Escrow with barrels of food include (left to right): CEO Larry Matney, Cori Bauer, Heidi Green, Rich Clum, Loc Lentsch, Kathy Brashear and Jenny Martin.

(for most philanthropic) are doing extra for the community with donations and participation in other groups."

Western Title has been no stranger to supporting the Nevada community the company calls home. Over the course of 2017, Western Title donated time, goods and more than $17,000 to 48 local charities. This was largely accomplished by employee donations and monthly charity drives, including an industry-wide food drive before Thanksgiving to benefit the Evelyn Mount Foundation, collecting Christmas gifts for Adopt-A-Family, and donating necessities for The Eddy House, Washoe County Child Advocacy Center, and Nevada Youth Empowerment Project.

One of Western Title's most recent fundraisers was also its most successful: the Inaugural Walk for Awareness. In efforts to raise Breast Cancer Awareness during October 2017, Western Title employees volunteered to walk a mile for monetary donations, which would be given to three local, cancer-related Reno charities: Susan G. Komen, Moms on the Run and Each One Tell One. After several weeks of contributions and sponsors signing their shirts, Western Title raised more than $3,500.

Another main source of Western Title's donations originates from a program called Casual Day Friday. Every employee, from the Reno office to the Winnemucca office, donates a dollar to dress casually on Fridays and the last day of the month. These donations resulted in more than $5,000 during 2017, and more than $80,000 in donations since the campaign's inception during August 1993. "Giving back to the community we love is an integral part of our business," said Sylvia Smith, president of Western Title Co. "Our staff continues to be overly gracious and has embodied the Western Title spirit of giving to those in need." ■

Western Title employees make laps around their main office to raise breast cancer awareness. This charity walk, which raised more than $3,500, was one of several events hosted by Western Title, resulting in more than $17,000 being donated to 48 local charities.

TIPAC Raises $2,350 for Alzheimer's Association

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POLITICAL ACTION
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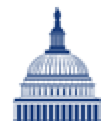

ALTA celebrated Giving Tuesday in 2017 by matching contributions to TIPAC with a donation to the Alzheimer's Association. Because of the TIPAC support, ALTA donated $2,350 to the Alzheimer's Association. Celebrated on the Tuesday following Thanksgiving and the widely recognized shopping events Black Friday and Cyber Monday, Giving Tuesday kicks off the charitable season, when many focus on their holiday and end-of-year giving.

IndustryUpdate

FHA to Cease Insuring Mortgages with PACE Assessments

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) ANNOUNCED Dec. 7 that that it was reversing guidance issued last year that the Federal Housing Administration (FHA) would stop insuring mortgages on properties that include Property Assessed Clean Energy (PACE) assessments. The new policy went into effect 30 days after the announcement. "FHA can no longer tolerate putting taxpayers at risk by allowing obligations like these to be placed ahead of the mortgage itself in the event of a default," said HUD Secretary Ben Carson. "Assessments such as these are potentially dangerous for our Mutual Mortgage Insurance Fund and may have serious consequences on a consumer's ability to repay, or when they attempt to refinance their mortgage or sell their home."

The new guidance states that the "FHA is concerned about the potential for increased losses to the Mutual Mortgage Insurance Fund due to the priority lien status given to such assessments in the case of default. FHA is also concerned with the lack of consumer protections associated with the origination of the PACE assessment, which are far less comprehensive than that of traditional mortgage financing products. FHA's involvement with accepting properties with PACE assessments may indirectly help to overshadow potential consumer abuses." The FHA said it would continue to monitor this risk to determine whether further action is warranted.

In July 2016, HUD issued guidance that outlined the circumstances under which it will insure mortgages on properties that included PACE assessments.

Following that announcement, ALTA joined other trade associations sharing concern over HUD's PACE policy. In the letter, the groups said the guidance provides that delinquent PACE loan amounts will retain a first lien position. This would allow any PACE loan amount to hold a senior priority and undermine the lender's (and the government's) collateral position and disrupt the very nature of secured lending. The trade groups also believe the guidance raises several consumer protection issues.

FHFA Announces Maximum Conforming Loan Limits for 2018

The Federal Housing Finance Agency (FHFA) announced the maximum conforming loan limits for mortgages to be acquired by Fannie Mae and Freddie Mac in 2018. In most of the U.S., the 2018 maximum conforming loan limit for one-unit properties will be $453,100, an increase from $424,100 in 2017.

Baseline limit

The Housing and Economic Recovery Act (HERA) requires that the baseline conforming loan limit be adjusted each year for Fannie Mae and Freddie Mac to reflect the change in the average U.S. home price. Earlier, FHFA published its third quarter 2017 House Price Index (HPI) report, which includes estimates for the increase in the average U.S. home value over the last four quarters. According to FHFA's seasonally adjusted, expanded-data HPI, house prices increased 6.8 percent, on average, between the third quarters of 2016 and 2017. Therefore, the baseline maximum conforming loan limit in 2018 will increase by the same percentage.

$97,500,000
RESIDENTIAL DEVELOPMENT

$525,000,000
RESIDENTIAL DEVELOPMENT

$63,000,000
HOTEL DEVELOPMENT

$299,897,000
COMMERCIAL OFFICE

$60,928,000
RESIDENTIAL DEVELOPMENT

$204,000,000
SENIOR LIVING DEVELOPMENT

$38,000,000
RESIDENTIAL DEVELOPMENT

$110,000,000
HOTEL DEVELOPMENT

$31,000,000
HOTEL DEVELOPMENT

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Maryland Issues Bulletin About Prohibition of Rebates, Inducements

The Maryland Insurance Administration (MIA) issued a bulletin reminding title producers about the state's prohibition on rebating, discounts and other inducements offered in connection with real estate transactions.

In the bulletin, the MIA said it learned that title insurance producers were offering consumers free home warranties or other things of value as an inducement of the purchase of a title insurance policy.

"Offering rebates or discounts in the form of free home warranties or home inspections as thank you gifts to consumers who purchase a title insurance policy from an insurance producer is prohibited by Maryland insurance law," the bulletin states. "Likewise, offering all consumers seeking title insurance free home warranties or inspections regardless of whether a title insurance purchase is ultimately made is also prohibited."

Berkshire Hathaway HomeServices Carolinas Realty Acquires N.C.-based Attorneys Title

Berkshire Hathaway HomeServices Carolinas Realty reported it has acquired North Carolina-based Attorneys Title. Financial terms were not disclosed.

Attorneys Title, which has seven offices and 25 employees, handles residential and commercial transactions in North and South Carolina. The Berkshire Hathaway HomeServices Carolinas Realty family of companies serves the metropolitan areas and surrounding communities of Charlotte, the Triad, the Triangle, and Pinehurst and Southern Pines with nearly 900 sales associates in 15 offices. With the acquisition, the Carolinas family of companies adds additional resources and valuable expertise to help customers buy and sell their homes and furthers its commitment to providing a seamless experience throughout the real estate transaction. Kimberly Rosenberg will remain with the company as president of Attorneys Title, while Bryan Rosenberg will continue as vice president of operations.

Waco Title Relocates Corporate Headquarters

Waco Title recently relocated its corporate office to Springdale, Ark., citing the need for a larger and more centrally located space due to business growth in the northwest part of the state. The new headquarters, which contains roughly 14,200 square feet and features improved parking, four closing rooms and a large training room, combines the company's title operations team from Lowell, Ark., the Springdale closing team, and the accounting and administrative departments.

Entrust Launches Compliant eCLOUD Product for Title Agents

Entrust Solutions recently launched a new cloud hosting solution for the title and settlement services industry.

Called eCLOUD, the product enables title agencies and law firms to put their existing title and settlement software on the Entrust cloud. According to Entrust, this ensures that clients aren't limited to just working from the office. The eCLOUD platform also assists in the care of ALTA Best Practices Pillar 3 compliance and CFPB regulatory issues.

"It connects users to a centralized, fully-functional data center," said Jonathan Yasko, chief executive officer of Entrust. "All programs and applications are managed, stored and supported on our secure server—not on your PC. Currently, eCLOUD can host most of the title and settlement software applications existing in the marketplace today. eCLOUD allows agents of all sizes to have an equal playing field."

CFPB Updates TRID Guide

The updated version of the TILA-RESPA Integrated Disclosure (TRID) Guide to the Loan Estimate and Closing Disclosure forms incorporates amendments and clarifications set forth in the final rule issued on July 7, 2017. The new guide is available at alta.org/trid.

NextDeal Releases Two-Factor Authentication for Products

NextDeal has released a two-factor authentication for users of its technology products, DigitalDocs and preDOCS.

"With identity theft, phishing attacks, and other online fraud at an all-time high, ensuring the information security of our users is the highest priority for us," said Robert Reich, CEO of NextDeal. "The implementation of two-factor authentication provides a required added layer of security around each and every account".

Two-factor authentication adds a second level of authentication to an account log-in. Entering a username and one password is considered a single-factor authentication. Two-factor authentication requires the user to have second credential, such as a pin number sent by text message to a known cell phone, before being able to access an account.

Segin Systems Completes Surveillance Audit

Segin Systems Inc., which provides the financial management and fraud protection software RynohLive, announced the successful completion of a surveillance audit to assess the company's information security management system (ISMS) in accordance with ISO 27001 certification maintenance requirements. Segin's information security management system was originally certified compliant with all 114 ISO 27001 requirements in December 2016 by Aprio, an external independent certification authority.

The surveillance audit was performed onsite at Segin Systems headquarters in Virginia Beach, Va., in October. These routine audits are required to ensure continued conformity to the requirements of the standards to which the initial certification was granted and are performed at least once a year.

"The successful completion of this routine surveillance audit speaks volumes about the team here and its unending commitment to what we do and whom we serve," said Dick Reass, CEO and founder of Segin Systems and RynohLive. "We take information security and the protection of critical data extremely seriously. Period."

First American to Acquire BofA's Lien Release Business

First American Financial Corp. announced it signed an agreement to acquire Bank of America's lien release business, which includes an agreement to provide these services to Bank of America going forward.

"We're excited to soon welcome the Bank of America lien release team to First American," said Dennis J. Gilmore, chief executive officer at First American Financial. "The post-closing function is important in today's mortgage lending environment, and this move will enhance the breadth of our post-closing products and services."

The transaction is expected to close in the first quarter of 2018. Once the sale is complete, Bank of America's lien release business and its employees will become part of First American's Mortgage Solutions division.

Qualia's Closing Platform Now Available in All 50 States

Qualia announced that its real estate closing platform is now available in all 50 states.

For over two years Qualia's compliance specialists and product engineers have worked to bring the ease of closing with Qualia to the entire country. After investigating regional nuances, building localized tools and creating extensive document libraries, Qualia now supports closings in all 50 states and Washington, D.C.

Along with its latest service expansion, Qualia recently released a mobile app for its users and expanded its platform services to lenders, real estate agents, buyers and sellers.

Recent Integrations

- **SoftPro** is now integrated with **Security Title Guarantee Corp. of Baltimore**, one of the nation's largest and oldest regional title insurers. SoftPro users who are also agents of Security Title can generate policy and commitment jackets, closing protection letters (CPLs) and electronically report insured risks directly through their SoftPro software.
- **RamQuest Inc.** has integrated its Closing Market digital network with **PropLogix** in an effort to streamline the real estate due diligence process. With this integration to PropLogix, RamQuest customers now have a one-stop-shop for their due diligence needs. RamQuest customers can seamlessly order municipal lien searches, estoppel letters, land surveys, payoff tracking or curative services without having to leave their RamQuest production solution.
- **Premium Title** announced its integration with **Pavaso**'s electronic closing technology solution. The integration allows Premium Title to offer mortgage lenders an e-closing solution, and to digitally deliver all closing documents to borrowers for review prior to closing.

NEWS TO SHARE?

If you have information you'd like us to consider for TiTLE News, send company announcements to **communications@alta.org**.

Movers & Shakers

Nate Baker

Qualia's CEO Honored by HousingWire for Major Industry Contributions

Qualia co-founder and CEO Nate Baker was selected by HousingWire's editorial board to receive the 2017 Vanguard Award. Criteria for recognition include outstanding leadership over the last 12 months within the housing finance industry and within his company.

In 2017, Baker led the company to an impressive growth trajectory. Under Baker's leadership, the company tripled its size and expanded the platform's availability from 15 to 50 states. Qualia's team launched a platform that centralizes the closing process and connects thousands of title companies, lenders, brokers, real estate professionals and home buyers and sellers in real-time across the country.

"While honored to receive this individual award, I want to share it with the Qualia team that builds the products that empower our members, which include title companies, lenders and brokerages," said Baker. "Together, we're solving a massive problem with coordination that has existed for years with real estate transactions."

Curtis J. Hoffman

Hoffman Appointed President of Old Republic Central Title

Old Republic National Title Insurance Co. (ORNTIC) announced that Curtis J. Hoffman has been named president of Old Republic Central Title, Inc. In addition, he will be appointed executive vice president of ORNTIC, joining the title group's executive leadership team. Curtis succeeds John Magness, who left the company. Hoffman has more than 30 years of experience in real estate and title insurance, including direct operations, business and sales development, recruiting and training, operational leadership and strategic business planning.

North American Title Names Indiana State Agency Manager

North American Title Insurance Co. (NATIC) has named Kathy Hulbert as state agency manager for Indiana. Hulbert most recently served for eight years as executive director for the Indiana Land Title Association. At NATIC, Hulbert will oversee agency operations in that state, while securing and servicing title insurance agents to promote new and increased business activity. Hulbert has been a licensed attorney in Indiana since 2002. She served as deputy attorney general in the professional licensing section of the Indiana Office of the Attorney General for four years.

Orange Coast Title Names Chief Financial Officer

California-based Orange Coast Title Company recently named Clegg Porter as vice president and chief financial officer. He has more than 25 years of financial and general management experience serving multiple industries. Clegg will report directly to Rich Macaluso, president and chief operating officer of Orange Coast Title Company, and assist him and the rest of the executive team on all strategic and tactical matters as they relate to budget management, cost benefit analysis and forecasting.

Entrust Adds National Sales Director

Entrust Solutions, a national title insurance servicing company, announced the addition of Benjamin Bell as its national sales director. Bell, former co-owner and managing partner of Landtech Data Corp., will focus on seeking new integration strategies with underwriters, software providers and vendors in the industry.

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ALTA's 2018 Strategic Priorities

STEVEN G. DAY NTP
ALTA president

STRATEGIC PLANNING is an important focus of ALTA's Board of Governors and its staff. It provides a sense of direction and outlines measurable goals. Strategic planning helps guide day-to-day decisions, and also helps when evaluating progress and changing approaches while moving forward. Different from traditional business planning, the strategic variety involves vision, mission and outside-of-the-box thinking.

Each year, ALTA leadership sits down and examines what the association should focus on to help our members excel in a changing business and regulatory environment. To accomplish our mission, we advocate on behalf of our members and the industry's interests, provide education and information to our members, offer networking opportunities, and create and promote professional industry standards.

To help guide us, we've developed six strategic priorities that we'll focus on in 2018

- **Our Values:** Promote the "Our Values" program (We Lead—We Deliver—We Protect) to strengthen company values and culture.
- **Forum for Innovation:** Serve as the hub for information on innovation in the title insurance and settlement industry.
- Information Security (Including Wire Transfer Fraud): Educate our members on security threats to their businesses in a cyber and physical environment.
- **The Customer Experience (Consumer-focused Customer Experience):** Provide tools through the Homebuyer Outreach Program (HOP) to help our members maintain a strong connection to the customer and put the industry in the best position to solve problems, bring innovative ideas forward and explain the benefit of title insurance to consumers.
- **Talent Focus and Business Basics:** Increase skills of the current industry workforce and enhance knowledge about the business of title and settlement among prospective employees.
- **Best Practices:** Maintain and improve ALTA's "Title Insurance and Settlement Company Best Practices," and promote the ALTA Registry as an industry utility to help confirm the identities of title insurance agents and real estate attorneys.

These strategic priorities are the center of ALTA's ability to provide a clear, consistent message for the industry. They will be my focus, and the focus of the members of the ALTA Board and ALTA staff in serving and assisting our association in the coming year.

In his song, "Any Road," former Beatle George Harrison wrote, "If you don't know where you're going, any road will take you there." The Cheshire Cat shared a similar message in Alice in Wonderland. The point is that in business, clear goals and priorities matter.

Over the course of 2018, you'll see ALTA focused on delivering tools and resources to help you survive, thrive and be prepare for what's next. We do know where we are going and the road to get there. ■

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GET CONFIRMED

WHAT IS THE ALTA REGISTRY?

The national ALTA Registry is a searchable, online database that confirms a title agent's business name and location at the time of an underwriter's confirmation.

WHY GET CONFIRMED?

The national ALTA Registry is a tool for your title company to show your mortgage lender you are part of the solution to provide more clarification and transparency in the real estate transaction.

BE PART OF THE SOLUTION:

www.alta.org/registry