



NALTEA

The National Association of Land
Title Examiners and Abstractors

Message from the President

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To say that this past month has been "*tumultuous for our industry*" is the understatement of the century! For those of us who have been in this crazy business for decades, we knew it would come to pass eventually if the sub-prime lenders did not listen. It has been more than frustrating for us abstracters!

I cannot even tell you how many times I have, during the course of a presentation, stressed the importance of using, what I referred to as, proper search parameters in making lending decisions. Then again, who are we to tell them how to conduct their business? There have been countless situations, in my experience, whereby clients have been notified, via an "FYI", of questionable items in the back chain of title only to be told not to provide them with "all of that stuff that I don't need". After all, they only wanted a "last owner" search. Again, who are we to tell them how to conduct their business?

Does that make us stop providing our "FYI" notes or stop scribbling notations in the margin of a search? Heck NO. Because we are professionals that take pride in our work and the manner in which we conduct our research. We are the experts. Maybe now, a few of them will start paying attention to what we so kindly try to tell them, whether they asked for it or not. Granted, who knows how many of the loans in question were based on searches completed on-line or by those calling themselves abstracters who were not

qualified? We have no way of knowing that, however we can certainly make some more noise about it.

NALTEA is in the process of writing two separate white papers, which touch on this same topic. One is being written as a case study specific to a case pending in the state of Illinois. The parties in this case are a title insurance company VS a national lender. One of the key components in this case, we feel, revolves around the actual search that was provided and subsequently used in the initial closing transaction. In reviewing this case, there were many steps taken, or not taken, which, when considered together, helped acerbate the situation. The other white paper is being written to explore the current "state of affairs" pertaining to the newest "short" title policies being issued in the marketplace. This will provide NALTEA's point of view on the matter, as it relates specifically to the type of search being conducted and, more importantly, by whom. NALTEA will be speaking on behalf of all legitimate abstracters and the poor, unassuming consumer who relies upon the "so called" experts when navigating through a closing transaction. Both of these papers are very timely to what has been happening throughout our industry. NALTEA will be taking advantage of this great opportunity to speak for all of you and LOUDLY. Now is the time for all of us to stress the importance of using abstracters that conduct their searches in a

traditional, thorough manner. Cutting corners is fine if you are mowing your lawn but when it comes to providing quality searches there is no place for shortcuts.

Please feel free to share your thoughts with us. We speak for you!

Board of Directors Report

Pat Scott

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Following is a summary of items discussed at the most recent NALTEA board of directors meeting, held on September 15, 2008. The NALTEA board of directors provides this information in the interest of openness and insight into the focus and efforts of your association. Naturally, NALTEA welcomes comments and ideas from members and prospective members alike. Openness and insight go both ways.

The board of directors welcomed guest **Glen Clark**, president and owner of insurance agency Fox Point Programs, Inc. Fox Point Programs, Inc. provides Management Liability Insurance in all 50 states. More specifically to NALTEA members, the company provides Errors & Omissions insurance to fit the needs of both larger abstracting companies and the 'mom and popshops'.

Mr. Clark explained the errors and omissions program, underwritten by Lloyds of London, and answered questions from the board members. The program features a significant discount for NALTEA certified members. The extent of the discount is contingent upon a review of the certification process.

Mr. Clark also expressed an interest in communicating with NALTEA's membership to determine, among other issues, whether monthly premium debits might be preferable to annual lump sum payments.

Committee Reports

The Education Committee has made progress in researching and contacting various testing companies with the capacity needed to administer NALTEA's certification test nationwide. The cost to members is a concern, and must be balanced with the convenience of locations offered by the testing companies. At this point, tests proctored on-site appear to be preferable to offering the test on-line. Cost and the integrity of the test are the two main factors in the committee's preference for on-site testing.

In addition to the testing of abstractors, the Education Committee presented the idea of developing a course to further the knowledge of NALTEA members. The course would be taught by NALTEA members who qualify as NALTEA Master Abstractors.

A motion carried to request a vote of the membership as to whether NALTEA should move the annual conference from January to October. As the conference is the only NALTEA event where the physical attendance of all members is requested, and is thus the most practical for election of board members, the question posed to members at this time includes the extension of the current board terms to accommodate a conference move to October.

Through efforts to contact non-renewed members to inquire about rejoining, the membership committee has found that a significant number no longer appear to be in business. The next effort to boost membership numbers will involve the assistance of a part-time contract researcher to gather contact information of abstractors who have yet to join NALTEA. The Membership Committee will decide on a contract researcher following interviews with three interested candidates. The contract calls for contacting 5,000 abstractors to verify contact information. The information will be used to conduct the next membership drive.

Discussion turned to the possibility of offering additional levels of NALTEA membership for those abstractors who may find it difficult to afford the dues required of full membership. One suggestion involves a free trial membership, to be limited in time and scope. The board did not reach a consensus on the topic during this meeting.

Next, the board elected a new vice president. NALTEA's immediate past vice president, **Vikki Moffitt**, was recently elected to the board seat vacated by **Jan Vogler**. The board now welcomes **Ed Gunther**, president of Infotrack, Inc., as NALTEA's new vice president.

As the final agenda item, Lynn Hammett reported on a white paper-in-writing. The white paper addresses an interesting court case between a major title underwriter and a major lender. The white paper is expected to appear soon on the NALTEA website and elsewhere in view of the title industry.

The next board meeting is scheduled for October 20, 2008.

Membership Committee Update

Carol Walker

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PLEASE remember to pay your dues and renew your membership to the only association that truly represents the interests of abstractors.

New September members include:

- Rita Hampton, US Land Title LLC, Associate Membership
- Robbin Roseberry, A1A Abstracting Services LLC, Independent/Corporate Membership
- Janis Talbot, Independent Membership

We have been doing a revamp our list of current and former members. We have been in the process of making phone calls to these members with returned e-mail addresses. Many of the numbers are "not in working order", most we are leaving voicemail messages and a couple have given us new email addresses. If you are a member and are not receiving this newsletter by email, please contact us to give us your updated email address.

The total membership prior to the renewal was over 100 members with 61 having renewed their 2009 dues already. Be sure to renew today. You can renew on-line at www.naltea.org. If you know someone that may be interested in becoming a member, please e-mail membership@naltea.org and someone will contact them with membership information.

Behind the Bailout

Jeanne Johnson

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Ever since the Enron mess, the government has required banks to give consumers reports that show a truer reflection of the current asset value on their books. This means when the value of a house drops, resulting change in the loan to value the loan will be considered a "bad loan." Even though the homeowner may be current on all payments, the loan is now reported, on paper, as a bad investment.

For example, let's say newly married Tom and Mary take out a mortgage with 5% down. So they have a 95% loan to value mortgage on their \$200,000 home. So the house is purchased for

\$200,000, the mortgage is \$190,000, they put \$10,000 down. They have conscientiously made all payments on time for the last 3 years. However, in the last three years their home's value has dropped by 10%, reducing its asset book value to \$180,000. The bank (or FNMA/FHLMC) depending on who holds the loan) must now must report the lower asset value on their books. This means they do not show enough value on the books to cover their loan in case of foreclosure. In reality, if Tom and Mary continue to pay, there's no problem. Except, it looks bad on the books, and the confidence level of the mortgage holder may wane.

But the financial institution now files its required report, and the investors see that the assets protecting their (mortgage backed) securities are no longer enough to repay the loan in the event of foreclosure. Remember, Tom and Mary are paying their mortgage on time, each and every month- as are the vast majority of people with a mortgage. Yet, if the loan to value is short because the house value dropped, the lender believes it *may* be in trouble and in need of funds to shore-up his balance sheet for the investors who purchased the securities backed by these mortgages. To some extent, it is a matter of confidence. Just as it is in the stock market. If Tom and Mary make payments, as most homeowners do, no problem. But what if they don't. The mortgage holder's confidence wanes. Will Tom and Mary continue to make their payments?

However, it gets worse. When people have taken out second and third mortgages worth significantly more than the property is currently worth, they made bail. This leaves the investor holding the bag, particularly because of the recent change in moving away from Private Mortgage Insurance. For many years PMI protected the lenders against falling asset value, by double checking the likelihood of repayment, and writing insurance against default. But in order to save the money on PMI, many took out first and second mortgages simultaneously (known as piggybacks) in order to circumvent PMI payments. The banks got a slightly higher yield on these loans, but much higher exposure because there is no PMI to fall back on.

There is no doubt that poor lending practices and greed are primary causes of this mess. Consumers lied on loan applications, lenders were negligent in checking loan applications, financial

advisers told the public to take out second and third mortgages to pay for cars and boats, to pay down credit cards, etc., and regulators, they did nothing. All of this has led to a tightening of credit that ought to help alleviate the problem in the future. However, today, tightening credit is a disaster for the average consumer. Because although most of us pay our bills on time, the system no longer trusts us to pay. The system doesn't have the safety net of enough value in our houses, tightening credit. So legitimate, needed credit will be almost impossible to get. The parents wanting to send their child to college will not be able to pay because they can't get a loan. The car that breaks down cannot be fixed because the owner can't afford to fix it and can't get a loan. The small business that has the cash flow problem and can't get a loan, will be unable to make payroll, putting people out of jobs.

It's not over. Our next round will be rise in rates for adjustable-rate home equity lines of credit (HELOC). Because of the dropped value of homes, many of these loans are now subprime. Many of these adjustable rate mortgages are set by the LIBOR. LIBOR went up 50% last week. A tightening of credit. Now, when they go to refinance out of this expensive adjustable-rate product, they will be in trouble because there's no longer enough equity in their house to cover it. We got ourselves into this one. In order to get new computers, new cars, new boats, and the latest television sets, we all borrowed unwisely. Recognizing that we could write off the interest on that second mortgage, and recognizing that it had a lower interest rate than our credit cards, we bought, and bought, and bought. Those with 2nd and 3rd ARM's are in trouble. They will have to make some tough decisions. Take a second job, sell the new boat, take Johnny out of that private school? But as consumers, we knowingly put ourselves there. In most cases, we have no one to blame but ourselves. Somehow we believed that the value of our house would always go up, up, up and we could sell it tomorrow for much more than we paid for today.

This will be a difficult lesson for us all. Our parents and grandparents worked hard to pay off the mortgage. Remember the black and white movies where a grandma and grandpa danced as they tore up the mortgage? Where mom and dad saved to buy a new couch or dining room set. It's a scene from the past. Somewhere along the line we lost the vision to own things free and clear, and the desire to be mortgage free. We saw our home only as an asset to be borrowed against for a new car or TV set. But I believe we are smart

people, and that we can learn from hard knock lessons. Let's hope the government steps up and bales us out from this disaster once again, there is no other way. Let's hope we all learn from this. We must all pay our own way, as we go.

NALTEA Membership Research Position Filled

The NALTEA Board of Directors has announced the Arlene Nelson of Nationwide Court Services will fill the position of Membership Research Position. The responsibilities will include, and may not be limited to, conducting research, compiling and verifying data to be used for a future membership drive and reaching out to fellow abstractors. NALTEA will supply Arlene some assistance with initial sources of information, in an effort to get the project started. Arlene will report directly to the board of directors and will be expected to submit a weekly work summary.

Annual Conference

All the members should have received an e-mail from the Board recently regarding changing the date of the annual conference from January to October.

If you have not already replied with your vote, please do so soon. You can send your response to membership@naltea.org. Your participation is important from not only a preference standpoint, but also to comply with the spirit of the Code of Regulations.

The Publications Committee is always looking for your ideas, comments or submissions for the newsletter. Please address to benefits@naltea.org.

The organization welcomes input from the membership. You can contact the board members or the various committee chairpersons at the e-mail addresses found on the NALTEA website at www.naltea.org.