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PRAIRIE TITLE

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News from Prairie Title

The Market is Cool, but the News is Hot

By Frank Pellegrini - Prairie Title CEO

Though the real estate market continues to be cooler than we'd like, there is plenty of hot news affecting our industry, most of it emanating from Washington. Consider these three recent headlines:

1. Supreme Court Rules in CFPB's Favor (MBA NewsLink)
2. ALTA Responds to CFPB on Mortgage Closing Costs (ALTA.org)
3. A Cautious Fed Eyes Just One Rate Cut In 2024 (Morningstar.com)

Each is a major story, and each is worthy of a few paragraphs (or more) in this column. Taking them one at a time, let's start with perhaps the easiest to address at this point.

Supreme Court Ruling Upholds the CFPB's Financing Mechanism

I agree completely with industry voices that applauded the 7-2 U.S. Supreme Court ruling in Consumer Financial Protection Bureau v. Community Financial Services Association of America. However anyone feels about the CFPB, the reverse ruling could have thrown the real estate market into chaos.

The Mortgage Bankers Association's President and CEO Bob Broeksmit, CMB, released the following statement in support of that point of view:

"MBA is relieved that the Supreme Court avoided a ruling that would have disrupted the housing and mortgage markets and harmed the economy and consumers. While we frequently disagree with the Bureau on how they interpret or enforce particular rules, a decision that would have invalidated the Bureaus' previous rules could have had severe consequences for single-family and multifamily mortgage markets."

Mortgage Closing Costs and the CFPB

As reported on nerdwallet.com:

The Biden administration is piloting a program to waive the lender title insurance requirement for certain conventional mortgage refinance transactions where there is "confidence that the property is free and clear of any prior lien or encumbrance," according to a statement by Sandra Thompson, director of the Federal Housing Finance Agency. The pilot program is part of an agency effort to look for ways that Fannie Mae and Freddie Mac can cut closing costs for homeowners. Fannie and Freddie are government-sponsored entities that purchase conventional mortgages from lenders.

Before the pilot, lenders could sell loans to the entities only if they had verified through an attorney's opinion or lender's title insurance that the titles were free and clear. In theory, eliminating the verification requirement for "low-risk" loans sold to Fannie or Freddie will lower refinance closing costs for borrowers.

We're all in favor of protecting consumers, but this is the wrong way to go about it, in my opinion.

Responding on behalf of the title insurance industry, the American Land Title Association said, "This misguided effort offers a false promise of savings for homeowners when in fact all it will do is expose consumers, lenders, and taxpayers to greater financial risk. This pilot will not help achieve the administration's goals of expanding homebuying opportunities and affordability for first-time or lower- and moderate-income individuals," said ALTA CEO Diane Tomb.

Importantly, fees for title insurance and other closing costs must be provided and disclosed to consumers under a federally mandated rule that the CFPB itself developed in 2015. Lumping title insurance and settlement services into the category of "junk fees" conflicts with the White House's own definition, which cites the lack of disclosure of the fee being charged.

CFPB's own research from as recently as 2020 shows these disclosures are working to educate consumers about closing costs. The CFPB report praised its own rule for improving "consumers' ability to locate key information, compare terms and costs between initial disclosures and final disclosures, and compare terms and costs across mortgage offers."

Michael Fratantoni, chief economist for the Mortgage Bankers Association (MBA), testified about the pilot program at a Congressional hearing in March. He was asked if he thought the pilot to eliminate title insurance on refinances would help first-time homebuyers purchase their first home.

"The short answer is no," Fratantoni said. "Title insurance provides critical protections for the real estate finance system by authenticating parties at closing, confirming authenticity of the closing documents and ensuring that the

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Meet the Prairie Team

Prairie Title's excellence is directly attributable to the quality of our people. Our professional staff members have decades of experience in the industry, and they are dedicated to the notion that great customer service begins with them. As a result, our clients have easy access to dedicated real estate professionals in an environment where decisions are made quickly, but not imprudently.

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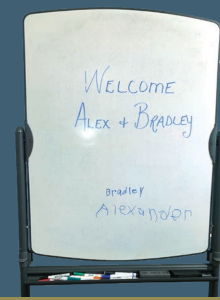
property being mortgaged is free of other debts."

I couldn't have said it better myself.

A Cautious Fed Eyes Just One Rate Cut In 2024

There is renewed hope, in my view, that interest rates will begin to recede later in the year. It's becoming clearer that Fed rate policies have helped contain inflation, which has shrunk dramatically since peaking two years ago, and that at least one Fed interest rate cut is in the offing this year. Some economists even believe that we'll see two Fed rate cuts later this year. Please see the accompanying article for more discussion on this topic from two noted national economic experts.



We welcome visitors to our office on our lobby whiteboard every day, typically title and real estate professionals as well as clients closing on home transactions. One day recently we had the opportunity to greet two future title geeks who left their autographs!

Experts Comment on Fed Rate Signals

After the Fed's decision not to cut interest rates in June, we heard the following prognosis from two prominent economists.

"Inflation is moving in the right direction, but it is not quite at the point for the Fed to cut interest rates. The all-important consumer price inflation rose by 3.3% from a year ago," said Lawrence Yun, NAR chief economist. "'Core' inflation decelerated to 3.4%, its slowest gain in three years. The target is 2% inflation. The recent peak inflation rate of 9% two years ago was a shocker, precipitating the aggressive interest hike policy by the Fed. The central bank can reverse that policy as better inflation figures continue in the upcoming months.

"The shelter component is the heavyweight driver, and it was up 5.4%; still high but the slowest gain in two years. The non-official private sector data points to rising apartment vacancy rates from temporary oversupply, and rents are essentially showing no increases. So, official consumer price inflation, with a lag time, no doubt has more room to slow down," Yun continued.

"The timing of the first rate cut is uncertain. But the longer-term outlook is for the Fed to cut interest rates 6 to 8 rounds by the end of next year. Home prices will remain solid, and home sales will pick up, especially in regions with rising inventory."

Morningstar's Senior U.S. Economist, Preston Caldwell, sees the possibility of two rate cuts yet this year.

"The Federal Reserve is now calling for only one interest rate cut in 2024. But their forecast is likely overly cautious, and we think there will be two or more cuts this year.

"Inflation shot up in the first quarter after being subdued in the second half of 2023. Core PCE inflation reached 4.4% annualized in the three months ending in March 2024, compared with 1.9% annualized in the six months ending December 2023.

"More recently, however, inflation has started to cool again, with core PCE inflation falling to 2.8% annualized in the three months ending in May (our estimates for May itself are based on CPI data). Suddenly, a benign environment for inflation could be returning, with the first-quarter uptick an aberration."

Guest Column

A White Sox Game Miscalculation

By Terry Clancy - Theresa Clancy Law, Oak Park

By the time I was pregnant with Luke, our fourth child, I thought I had the labor thing all figured out. My prior pregnancy with Maureen, two years earlier, went a week past my due date. So, I felt confident this time (only three days past my due date) encouraging my husband Mike to take our two boys, Paul and John, to the Oak Park Youth Baseball's outing to the White Sox game. Sadly, my confidence was overstated.

Right about the fifth inning, I started to feel contractions. Since my prior labors lasted hours and hours, I thought I had some time. All would have been fine had there not been post-game fireworks.

As the post-game minutes ticked by, my contractions got more intense. I called my brother Mark to come watch Maureen in case I needed to make a run for the hospital. Luckily, Mike and the boys got home just as my brother arrived.

On the drive to the hospital, I kept telling Mike that I couldn't wait to get sweet relief from the pain with an epidural. At the hospital, I quickly changed into my hospital gown with every hope that an epidural was just around the corner. The nurse said she needed to check me before she ordered the epidural. Once examined, the nurse told me she had good news and bad news. The good news: I was 10 centimeters dilated and ready to have my baby. The bad news: it was too late for an epidural. This would be a natural birth. Ohhh Noooo!

It turned out to not be as painful as I thought. In fact, Luke was delivered so quickly, there was no time for my obstetrician to arrive. Instead, a very experienced nurse, my husband Mike, and a downright terrified new resident delivered Luke. All 9lbs, 4 oz of him.

Pregnancy can be instructive about life. One of life's adages that stems from pregnancy is.....9 months up and 9 months down. It takes nine months to gain the weight needed to grow another human being, so it may take nine months to lose the weight post pregnancy.

Perhaps we can apply this same perspective when dealing with the current inflation. At its core, our recent inflation was caused by the pandemic and its reverberations. The pandemic was a huge economic change. Huge. For a moment it brought the economy to its knees. 15% unemployment – the highest on record, plummeting stocks – the worst day on Wall Street since the Great Recession, and a worldwide supply chain problem.

The pandemic officially started in the U.S. on January 20, 2020, and "ended" May 11, 2023. That is 3 years, 3 months, and 22 days later. If we apply the 9 months up and 9 months down analogy, we should give the economy the grace of recalibration until at least the summer of 2026. Over two years from now. However, we Americans cannot wait that long.

Even if the economic numbers say our economy is doing a good job recovering from the pandemic, we do not feel that way.

According to a recent Harris poll, nearly three in five Americans wrongly believe the US is in an economic recession. 49% of us believe the S&P 500 stock market index is down for the year, though the index went up about 24% in 2023 and is up more than 12% this year. 49% of us believe that unemployment is at a 50-year high, though the unemployment rate has been under 4%, a near 50-year low.

What gives? Inflation is kicking our butts and clouding our judgment. Why? Perhaps, because most of us are not experienced with inflation. The last time we had stubborn inflation was in the early 1980s. Plus, our current lifestyle of immediate gratification undermines our tolerance to wait it out for the lowering of inflation.

Sure, inflation has decreased, but we are used to almost no inflation. And prices are still at a higher level compared with just a few years ago. Thankfully, many goods' prices are starting to stabilize, and, in some cases, they are decreasing.

So, what's keeping inflation from flattening? Some experts say there are two main factors at play: gas prices and the cost of housing.

Fluctuating gas prices are a geopolitical issue and due to current world events. Regulating the price of gas is mostly out of the control of the U.S.

What about housing? Unfortunately, the solution to the housing problem may also be contributing to the problem. During the pandemic, mortgage rates dropped to an all-time low. At one point the 30-year fixed rate was 2.65%. This caused many of us to refinance. Now that interest rates are high, those of us with low rates do not want to sell and give up that low rate. Plus, lack of new home building due to the Great Recession has also reduced housing inventory. So housing inventory stays low and prices keep rising.

The combination of high interest rates and high prices is forcing renters to stay renting. High demand by renters yields increased rental prices. Thus, a vicious cycle. So, what is the answer? Do we just white knuckle it until interest rates are reduced and we build more housing? Perhaps. Homeowners are starting to accept that we may never see a 2.65% rate again or at least not for decades.

If salaries keep rising and mortgage rates remain the same, it will take on average 3.5 years to restore affordability to the housing market. If the mortgage rate drops a percentage point, then it will only be 2 more years to housing affordability. That would amount to 3 years up and 3 years down for the pandemic economy. A hard pill to swallow, surely.

Thankfully, there should not be a repeat of the Great Recession's total housing collapse. That is due to the overall health of the economy and strong mortgage lending standards.

Is there anything good to be said about inflation? Yes. It has unified Americans. We all hate inflation.

Be on the Lookout

Elizabeth Berg (right), national vice president of Education and Training, Fidelity National Financial, visited Prairie Title in April to give a presentation titled: The Internet and Mass Transit; How Everyone Being Everywhere Anytime Affects Title and Closing. Preventing fraud in real estate transactions was the central theme of her presentation. (See the fraud prevention tips below.) Elizabeth is shown with Frank and Mary Pellegrini.

Property Red Flags

- Vacant or non-owner occupied
- Investment
- Rental Property
- No mortgage or deed of trust on the property
- Vacation Home
- Being sold for less than market value
- May have different address than owner's address or tax mailing address OR recent change to address for taxes

Seller Red Flags

- Quick sale
- Cash buyer only
- Refusing to meet with Realtor or attend closing in person
- Does not want to use telephone or video call
- Proceeds must be wired
- Refuses or cannot complete multifactor or identify verification
- Wants to use their own notary
- "Out of state" or country

Attorneys Title Re-brands as Advocus National Title Insurance Company

Advocus™

National Title Insurance Company

After nearly 60 years as Attorneys' Title Guaranty Fund, Inc. (ATG), the Chicago-based title underwriter announced a new name and brand: Advocus National Title Insurance Company.

Statement from Advocus regarding their re-branding:

"Advocus National Title Insurance Company, formerly Attorneys' Title Guaranty Fund, Inc. (ATG) is poised for expansion. The new name honors our past, embraces the future, and allows us to expand into other U.S. markets using the same sensibilities that drive our Midwest success.

"What sets us apart? Advocacy. It remains our north star, our guiding principle.

"We are committed to our agents, to preserving the attorney's role in real estate transactions, and to protecting consumers in the largest financial transaction of a lifetime. Over the last 60 years, we've earned a reputation for doing things the right way, supporting our agents without competing with them, and fostering mutually beneficial partnerships.

"This distinction is at the heart of the journey we have taken with our lawyer agents: But for this organization, lawyers would be out of the real estate practice and homebuyers and sellers would not benefit from their protection.

"Today's lawyers may not remember the threats and don't recognize that many remain.

"Advocus will continue to be the most ardent and effective advocate for lawyers. Our priorities remain the same for lawyers and their clients:

- Advocacy
- Education
- Service
- Leadership

"Real estate lawyers who are concerned about the future of the residential real estate practice should be thinking about joining Advocus. We put you, and the clients we both serve, first."

Advocus continues ATG's affiliation with Prairie Title as a title insurance underwriter.