1st Quarter 2024

ECONOMIC OUTLOOK WEBINAR

with WFG's Patrick Stone and economist Dr. Bill Conerly

FULL TRANSCRIPTION

Welcome with Dr. Bill Conerly

“At last night's reception, it was clear that you are looking for good news and Pat did not want to break your hearts, so he told me to go first. The plan of action is I'm going to speak for a few minutes, then Pat is going to speak for a few minutes, and then we're both going to toss questions to each other. The questions that you folks have submitted in advance. What I'm going to talk about is mostly the near term outlook for real estate transactions, but there's an important additional long-term issue I want to raise. An issue that affects everybody who has or envisions having employees. So let's get rolling. Here we go.”

Opening Commentary from Dr. Bill Conerly

“The economic outlook. Your business is part of the economy. It's not the whole economy, but it's a significant, but tiny part of the economy. Significant because it lubricates many other parts of the economy. And the first thing I look at is, ‘Gee. What's happening with real estate transactions?’ Just the number of deals being done. This is data. The blue columns from the National Association of Realtors, and you guys in the back, turn the timer on so I don't go too far.

“I said to myself, ‘Self, in the big changes, the big cycles, how do real estate transactions correlate with GDP?’ And you can see on the far left, 1978 through 1982, we had a big drop in transactions. A little bit of gain over that four-year period even though there was a recession, a net gain in GDP. Then we had some big rebounds in the volume of deals with much smaller increases in GDP. And after that it didn't seem to correlate. So I'm like, okay, the overall economy, when people like me, economists like me, talk about GDP or total employment, that is not your industry. I mean you're a little part of it, but don't worry when people say, ‘There's going to be a recession or GDP is down,’ that's not the focus that will drive the volume of transactions that you're working on. So what is it? Well, I think if you just look at these big cycles and I'm omitting years where not much is going on. If you look at these big cycles, it has a lot to do with mortgage rates. So the big drop in transactions from 1978 through 1982, mortgage rates had gone up. And then a rebound in transactions, mortgage rates went down. Another increase with falling mortgage rates. A drop with rising interest rates. You get the picture. So the big issue is what is going to happen with mortgage rates? Can I leave now? (Laughter) Alright. Okay. Alright.

“You want a forecast, so the critical issue on what's going to happen with mortgage rates is about what the Federal Reserve is going to do, what Jay Powell is going to lead his folks to do. And a question I get asked a lot is ‘Bill, Bill, Bill.’ And I've learned that when somebody says my name three times, they're really frustrated. They think, ‘Bill, what is the Fed thinking? Why aren't they cutting interest rates? Let's get this thing going.’ Well, back in that cycle that I showed you a moment ago from 1978 through 1982 when there was a huge drop in real estate transaction volumes, that's because we had had a lot of inflation. Those of you with as much gray hair as me may have learned something called the ‘Phillips Curve,’ which asserted if you have high unemployment you'll have low inflation and vice versa.

“Well, it turned out what we learned from the experience of the 1970s and then the early 1980s is that the economies with low and stable inflation have the best long-run growth and the most stable economies. And this is US economic history plus global economic history. Low and stable inflation generates steady, good, solid growth. We have fewer boom-bust cycles. So the Federal Reserve is saying low and steady inflation. That's the most important thing. Now do

they want jobs? Yeah, they want jobs, but they think the way to get good jobs, high wages for people is low steady inflation. So let's look at inflation. The most common measure is the Consumer Price Index. You see that, and you can see that the rate of inflation, whether you count food and energy or not, has come down a little bit. The CPI is not what the Fed looks at. They look at a different measure. And if you want to know the difference, buttonhole me outside and, as I talk about buttonholing me, we are going to deal with some questions that were submitted in advance. But I'm going to be here through tomorrow morning and anytime you see me, feel free to pull me aside as long as I'm not talking to somebody attractive. And feel free to pull me aside and say, 'Hey Bill, explain this. Explain that.' I'm happy to take questions, I'm happy to take personally questions you would be embarrassed to ask in public.

"So anyway, we've got this other measure of inflation that the Federal Reserve looks at. They look at the core inflation excluding food and energy. And let me just clarify. Even though they are focusing on core inflation, they're most concerned with total inflation. But from an operational standpoint, they've concluded that if they try to limit core inflation excluding food and energy, they will do a good job with total inflation.

"So the light blue line that you see is core inflation. The dash blue line is the target, and we're getting close to the target. The argument for cutting interest rates now is, 'Hey, there's a long time lag between cause and effect and the inflation measures we're seeing do not fully reflect the cause that is in the pipeline. We're going to have more inflation reduction.' That's an argument I hear a lot and you are hearing it from the folks who think the Fed should cut, but the Fed has a problem. Their economic models that forecast inflation have not worked very well. Before the pandemic, we were getting inflation below the target and the Fed didn't understand why. They were trying to get inflation up to 2%, they weren't able to do it and the Federal Reserve concluded that their own forecasting economic models were not doing a good job on inflation.

"Well, I did not take pride in that because my own forecasts were doing a lousy job. All of the private sector forecasters were doing a bad job. As a result, the Federal Reserve got humble about its ability to forecast inflation. The Federal Reserve got humble. They are not known for their humility. I got humble and Pat and I've known each other a long time and he will tell you I am not known for my humility either. But as a result, all of us in the economics profession are doubtful that we can accurately forecast inflation. So the Fed says, let's be cautious, let's make sure inflation is down. The other thing the Fed is looking at is how is the US economy doing overall? This is Gross Domestic Product adjusted for inflation. Those of you who listen to the quarterly videos that Pat and I do, you'd be very polite to not remind me that a year ago I was saying we were going to have a recession starting in late 2023 or early 2024. I've pulled that forecast back. Didn't happen. The economy's strong. In addition to the GDP numbers, we're seeing net new jobs. This is month-to-month job creation figures. 2021 and 2022 were bouncing back from the pandemic. But the pace we've had for the last year and a half or so, that's consistent with absorbing all of the labor force. Everybody who wants a job and is willing to go looking for a job is finding a job and we don't see any weakness. So the Federal Reserve is saying, 'Okay, our inflation forecasting model is lousy, but maybe we ought to cut.' And then they're saying, 'Why should we? The economy is doing just fine. The economy does not need more stimulus.' Well, I think that the Fed does believe that current interest rates are too high for a long-term healthy economy and they will be cutting. They're meeting later this week. I don't know why we scheduled this presentation about the economy two days before the Fed's going to make an announcement. It's sort of designed to make me look stupid I think. And I tell you, you don't need to design a program to make me look stupid. I'm quite capable of doing that myself. So let me give you my interest rate forecast.

"I think the Fed is going to start cutting rates later this year. They have a meeting in mid-June and a meeting at the end of July. At one of those two meetings, I believe they'll do their first cut of short-term interest rates. That's the orange line. I think they'll do a quarter-point cut. My best estimate right now is they'll do two additional quarter-point cuts. The Fed manipulates the short-term interest rates, not long-term interest rates. So let's talk about mortgages which are more important for you. And if you do commercial, the volume of commercial transactions roughly correlates -- roughly -- with the volume of residential transactions, so that early slide makes sense. And commercial mortgage rates are somewhere in between the short-term interest rates and the home mortgage rates. But I'm not showing in my forecast as much of a drop in mortgage rates as we're seeing in short-term interest rates. And let me tell you what I think is going on there. Many investors, long-term investors, people who are managing life insurance company investments or college endowments, long-term investors are saying interest rates are relatively high, they'll probably come down, so let's lock-

in the high interest rate. If you buy a 10-year treasury bond, that interest rate is locked in for 10 years. Suppose as an investor though you invest in mortgage-backed securities, a security made up of freshly created 30-year mortgages. How long have you locked up your money for? When are those mortgages made this month, when are they going to refinance? If they're going to refinance in two years, you've locked in high interest rates for two years when you could buy a treasury bond and lock it up for 10 years. So I think as a result, the market is not going to be too eager to buy mortgage backed securities. And as a result, the interest rate is going to stay high. We'll need a high interest rate to get people to buy that paper.

“So that is the forecast I have for interest rates and what it means for the volume of transactions is gradual improvement, slow gradual improvement. This is what passes for good news these days. I think that the second half of 2024 will be a little bit better. 2025 will look a little bit better. It's not going to be a boom, but it's not going to be nearly as bad as what you have gone through over the last couple of years. So that's some positive news.

“Now I'm going to shift gears for a couple of minutes and talk about a long-term issue that applies to every business. I was asked to talk about demographics back in 2005, and I pulled the data on the population and I think this is really important. Before the pandemic, we had unemployment below 4%. In 2018, 2019, business leaders would tell me that finding and retaining talented workers was their biggest challenge. And that was before the pandemic. Let me tell you why that is. From 1850 on, the Census Bureau not only counted how many people were in America, they asked ‘what is the age of each person.’ So we can go from census to census and, with a little bit of arithmetic, figure out what is the increase in the working age population in every decade. And I want to highlight four decades. The decade of the 1970s, the 1980s, the 1990s, the 2000s. Look at how high the growth of the working-age population was. That was the baby boomers coming of age, the later baby boomers coming of age, the children of the baby boomers coming of age. Four decades of strong growth in the working-age population and something else was going on. What was going on in that era? If there are any women of my generation here, you know what was going on. We entered those four decades of strong growth in the working-age population with about one-third of adult women working. At the end of four decades, we had two-thirds of women working. From one-third of women to two-thirds of adult women working. At the same time, we had huge population gains. This was an era when you could be rude to employees. You could say to an 18-year-old retail employee, and I'm quoting my first manager, ‘Hey Conerly, time for a haircut.’ Today you don't dare do that because, ‘boom.’ But my manager knew that if Conerly quit, there was a line of people applying for the job. Management of human resources became very sloppy. People were not nurturing talent because there was always a long line. Well that was then. Let me tell you where you are now. The current decade, from 2020 to 2030, will have the lowest growth of the working age population since the Civil War. The lowest growth of the working-age population since the Civil War.

“What's your vision for your business over the next say, 10 years? Is it to grow your business? Most people say that. If your vision is growing the business and growing your staff, where are you going to get the people? Some of you have a more reasonable vision, which is grow the business and use productivity to not have to grow your headcount. In that case, consider that you've got a target on your back because everybody who is trying to grow their staff is going to try to poach your workers. It's going to be a dog-eat-dog world for employers, an employer-eat-employer world. And that is going to get a little bit better in 2030. 2030! A little bit better, but still not like it was in the 70s, 80s, 90s and teens.

“So, my time is about up, but I'm going to give you a hint. If you want more information on how to deal with that, I've got more resources. But number-one task is more productivity. And I'm not talking about whipping your people harder, insisting that they work harder. I'm talking about giving them better tools, better training, better management. All of those things will help you get more production from your workers. They will also help with retention and everything that helps with the best employee benefit has nothing to do with childcare, or yoga classes or goat yoga. That's sort of a big deal in Oregon these days. The best employee retention technique is to provide good direct managers. The best employee benefit is a good manager, and that will also help with recruiting.

“So that's pretty much the end of what I have to say. We have, I think, gradual improvement in your business, but an ongoing challenge. And let me mention, I put out a monthly newsletter. I'm happy to share it with you and if you'd like

to get my comments in graphical format, you can just hit this QR code and I'd be happy to share that with you. We will do questions, but now let me introduce my colleague, my friend, Pat Stone.

Opening Commentary from WFG Chairman and Founder Patrick Stone

“Thank you Bill. So one thing about Bill is I've known him 42 years and he actually is business-oriented, which is rare for an economist, and I've learned a lot from him and I really appreciate his comments. He's usually very accurate in his predictions.

“Alright, so talking a little bit about real estate and kind of building on what Bill said, I really think real estate is probably one of the parts of our economy that is more truly supply and demand-based than any other part. And by that I mean that it directly reflects the price of homes. If the supply is low and the demand is high, prices go up. Conversely, if supply is high and demand is low, like we saw right after the Great Recession, prices come down. So it really is truly a supply and demand business. And supply is new construction, resale and foreclosures. That's how I define supply. Demand is need, desire and affordability. Bill did a good job of talking about affordability. I will echo some of his comments. And he talked a little bit about existing home sales. And you see, based on January's numbers, we're going to come in just about like we did last year, maybe a little bit ahead of last year, but we really haven't had a great year in real estate, I think. In 2005, I believe, we had 7 million sales. Anybody vaguely remember that? Yeah, that was pretty amazing. It was pretty busy. We've been a little bit depressed the last few years. There's a lot of reasons. Most of you know why. You look at single-family housing units completed by builders. We had a tremendous drop-off after the Great Recession. A slow rebuild, but we're still basically below the 50-year average. And I know a lot of big builders and I will tell you they were excited and geared up to build a lot of homes starting in January of 2022. They very quickly got over that, sold a lot of their lots, and didn't get really engaged. They have the potential to get engaged and to get engaged significantly once rates come down. But if you're building a home, you're taking a little bit of risk, aren't you? I mean, you've got to buy the lot, then you got to build the home and then you wait for it to sale sell. But typically you're on the hook for nine to 12 months before you get a return on your investment. So builders are being a little bit careful now until they see they have certitude about where rates are and where we're going. Once we see a significant and meaningful start to a drop in rates, I think builders will engage because they know the demand far exceeds the supply.

“So home tenure, you hear a lot about people not moving because the have low mortgage rates [in place on their existing mortgages]. Straight up, that's not really why. It’s sociological. You can see on this slide, homeowner tenure back in 2005 it was 6.5 years average time in a home. All the way up through 2019 it grew. 2020 it hit 13.4 when the pandemic started. We're at 11.9 years average now. And if you look at this slide, this shows all moves. And you go back to 1986, 20% of the population moved every year. That declined gradually all the way through the start of the pandemic. We were down to about 8.25 percent moving prior to the pandemic starting. So you've seen a sociological change in our country where people hold onto their homes longer. They're focused on improving their homes. They're not so quick to move. I think a little bit to do with jobs and everything else, but basically we've slowed down on the amount of moves we've had, and that's impacted resale, right? So we don't have builders building and we don't have people moving so much, so that has offset the drop in demand. So we really haven't seen a tremendous disruption in prices. We had a big boom during the pandemic because people were so environmentally conscious. But we're back to a point now where I think you're going to see appreciation average 3.5 to 5% a year going forward. You're not going to see any more big moves.

“Let's analyze demand a little bit. Need. I know there's not a lot of 11-year-olds that buy homes. But Gen Z, we've got 69.6 million people. Over the next 10 years, a lot of them are becoming first-time buyer age. Millennials, we have 72.1 million. So my math is a little shaky here, but I think that's 141.7 million people. That is a huge population of potential home buyers. That is the second biggest bubble behind the baby boomers we've seen in history. So the need is there. I mean, we have a tremendous need for home ownership. How about desire? 95% of the people 20 to 42 want to buy a home. 95%! Now straight up, I can't measure this, and this is not particularly analytical, but I think you'll identify with it. When I was young, the first thing you did when you became an adult was you bought a home because that was the first

step towards financial independence. That was the first step towards being an adult. You got married, you bought a home. That dissipated over the years. Over the last 40 or 50 years that's become less urgent.

“I can tell you my oldest daughters, ‘Hey, we may buy a home someday.’ They didn't care that much. With the pandemic, everybody started to, ‘Hey, wait a minute. Controlling the environment I live in, where I keep my family is of paramount importance.’ So the desire went up like a rocket ship with the pandemic. We're back to where we were in the seventies. If you can, you buy a home. So, the need and the desire are there. Look at this. 75% think homeownership is a part of the American Dream. 68% think home ownership is a first step towards intergenerational wealth. We have need and desire, as Bill pointed out, we don't quite have affordability, right? So, we are really sort of in balance between supply and demand right now. We had that spike, but I think we're going to go back to them staying a little bit more in line. Interest rates come down, we're going to have affordability come back into play. Builders will build, people will sell a little bit more. I think we'll be fine.

“This shows the median existing home price. You can see the spike with the pandemic and then it dropped. In January we were at a 5.1% annual rate, kind of back to where we were for quite a while, and I think we'll stay right around that 3.6 to 5% appreciation rate going forward.

“Looking at this, you can see that actually the median price of existing homes -- home sales -- that's actually subject to seasonality just like every other aspect of our business. And you can see here, home sale prices by region. I personally hate the Case-Schiller Index. I think it misleads people a lot. People don't bother to peel the onion and find out precisely how it is area by area. Media tends to make a broad statement. But look at here, the difference between the average existing single-family home sales price in the West, January 2023 - January 2024, and then look at the Midwest. So, I do a lot of traveling and I talk to a lot of people and I got asked quite a bit the last couple years, ‘Hey, everybody's leaving California because they’re Communists.’ No, they're leaving California because if you're a young person in California, you can't afford to pay almost $600,000 for a home. You move to the Midwest, you could buy a home for $273,000. Tremendous difference in price by region. And you can see the Northeast US and the South. And so we've had a lot of people departing the West. That's changing now. That is changing. If you see the existing home sales volume, you can see the West had the smallest decrease year-over-year in January of any region and existing home sales volume.

“I will tell you, Gene mentioned earlier we have our direct operations in seven Western states. Our business on resale was up almost 30% in January. It was up another 15% in February. So far, March is up 11% more. Compared to the country as a whole, we're benefiting because the West has quit exporting people and we are back to the point where we're a little bit more stable economy in the West.

“Alright, homeownership by region. And this statistic is a little bit misleading because really what this means is the amount of people that own the place they're living, be it a single family residence or an apartment, okay? So that's why Midwest is up at 70.1% in 2022, 69.8% in 4th quarter of 2023. But you can see there's probably less apartments, but more people own their apartment or their home in the Midwest. The west is the lowest in 61.4%. But homeownership, I don't think I've ever seen it higher than 70%. And it does vary by region, just like price by region.

“How about distressed property sales? We do not have a problem here. We were very fortunate, and I'll show you why in a second. But look at, we had the forbearance period where it was basically flat. It started reengaging a little bit, but still very low in terms of distressed property sales. So look at mortgages. Equity-rich homes in Q2 of 2023 are at 49.2%. Q4 of 2023, 46 0.1% of homes had more than 50% equity. That is huge.

“How many people here are focused at all on HELOCs? Do it. Alright? There is a tremendous amount of equity in US homes. If you're not calling on lenders to get HELOC business, do it. At least try and see if you can get some because it's there and it's going to be there for the next couple of years. People will be tapping that equity. And you can see distressed, seriously underwater or distressed ownership was down to 2.6% in Q4 2023. We have a very healthy real estate market in the sense that the amount of equity and the amount of distress. We are actually in a very good position. We just need more supply and more affordability, and the volume will pick up.

“Alright. So one of the reasons that the equity is so high and the distress is so low is look at the percentage of loans over 760 FICO score in the last four years. How many people were in the business back in the early 2000s? So it was kind of crazy running up to the financial crisis. I was the chairman of a mortgage company, the 20th largest mortgage company in the US, and I used to have each department come in and give a report at the board meeting. And the last question I would ask them, ‘Okay, for your department, what was your average FICO score?’ Well, November of 2005 the guy running subprime comes in, and he was doing a lot of business. So we get done with his presentation, he gets up to leave, and I said, ‘Wait a minute. What was your average FICO score?’ He said, ‘My average FICO score last quarter was 565.’ I said, ‘You’ve got to be kidding me.’ He says, ‘No. What's wrong with that? That's the market.’ I shut it down. I shut it down. We sold the company in April of 2007.

“You could see this one coming. It was a disaster coming down the road. Average FICO score of 565. You guys remember stated income loans? ‘Hey, I make $500,000. I know I'm unemployed, but I make $500,000.’ It was insane. Look at the crap that was generated between 2003 to 2008. It was bad. We do not have that problem now. We actually have a surprisingly healthy housing market in the sense of the percentage of equity, the low level of distressed property. So, we're really ideally situated once we get affordability down. So, oh yeah, and here. Look at this. This shows product risk and borrower risk and how much it changed after the Great Recession. We haven't generated crapola in a long time. That's a technical term for bad loans.

“Alright, so the percentage of mortgage rates less than 4%, you hear this all the time, are very high. A lot of loans under 4%. Why did I say that's not as big as factor of sociological implications? You can look at here, about one in four US homeowners, 26%, say high mortgage rates would not impact their decision on when to sell their home. And of that 26%, 43% say it's because they would not need a mortgage to buy a new home. Oh, Okay. So that isn't really impacting. It's more sociological. People are staying in their homes longer.

“Nepo homebuyers, recent home buyers under 30 used either a cash gift from a family member or an inheritance in order to afford down payment. So, we do have young people buying homes because of intergenerational wealth.

“Alright, Bill talked about this a little bit. I'm going to kind of emphasize it. Back to the affordability issue. You can see the 30-year mortgage rates. I checked this morning, they were at 6.77% and the 10-year this morning was 4.30%. So, if my math is right, that’s a 2.47% difference. Historically, the 30-year mortgage rate runs 1.5% to 2% above the 10-year T-bill. I mean, if you look back 50 years, that's almost consistently the case. If you have accelerating inflation, that spread broadens significantly. Okay? And it was up about 3.5% there for a while over the 30-year, over the 10-year. Now it's back to 2.4%. I will tell you this, and I firmly believe it. If we have a rate cut in June or July, and I think we will have a rate cut in June or July, you'll see that spread tighten back down to 2%. So after that first rate cut, I expect the 30-year mortgage rate to be down to 6.3%. Second cut, I think it maybe comes down close to 6%. I'm expecting mortgage rates to be close to 6% by the end of 2024. So, I'm optimistic about the second half of the year because you've noticed people are starting to buy homes even with mortgage rates where they are. The volume is going to go up. The second half of the year is going to go up. Will it be a rocket ship? No, I think Bill is right. It's going to be gradual, but it will be meaningful and it's there. Alright?

“2025. I see the first part of 2025 being pretty good. I do worry a little bit about the second half of 2025, especially towards the end of 2025, and I'll tell you why. You can see commercial real estate debt then outstanding changed from the quarter earlier. So this basically is measuring how much more commercial real estate debt is generated each quarter.

“And you can see that the second half of 2nd quarter of 2023 is the lowest it's been a long time. It was low in the third and fourth quarter. Commercial real estate debt has slowed way down because there is $1.5 trillion worth of commercial real estate debt coming due by the end of 2025. $1.5 trillion. And a lot of that is held by regional and community banks. And one of the things you see here, US commercial real estate construction square footage. That started to drop in 2023. It has slowed down dramatically because we have fully built apartments to take care of all the apartment need. We have all the apartments we need right now. Commercial real estate is questionable. We get to the end of 2025, I personally expect a little disruption. I think we will have some regional and community banks fail.

“And now, on the plus side, there is a tremendous amount of money. I'm involved in one fund personally, and we are talking to community and regional banks about this issue and saying, ‘Okay, you’ve got problems here. Get us involved. We'll buy the property. We'll make your loan full. We'll do whatever we need to do. Or, if you foreclose, we'd like to talk to you about buying the property.’ There is at least $1.5 trillion out there willing to do that. So, will this be a major long-term disruption? No. Will it be a hiccup? Yes. Will it be noticeable? Yes. Will the media say we're having a banking crisis? Yes, because they do that any time a bank fails, right? I mean, I'm still mad about the Silicon Valley thing. I worked on Wall Street for a while. The only time I have ever heard of a large institution making interest rate investments and not hedging their bet was Silicon Valley Bank. So we had a problem with Silicon Valley, we had runs on two other banks, and we had a banking crisis according to the media. Now that abated very quickly because it really wasn't a banking crisis. We're going to probably go through that a little bit at the end of 2025. I think it'll correct fairly quickly, but expect a little hiccup towards the end of 2025. But 2025 will be a much better year than 2024. 2024, I think, is going to be a much better year than 2023. So I am cautiously optimistic. I don't expect a rocket ship in terms of change, but I do think things will get better.

“Should we do some questions? Oh, by the way, real quickly before we do questions, a lot of you wanted to know what we thought about what we thought about President Biden's new initiative. And tomorrow when I talk about the future of the industry, I'll get into all that in a lot of detail. I'll probably swear a little bit, but I'll try to give you my best thinking on that. So we'll wait till tomorrow for that.”

Question and Answer Segment

Do crypto transactions pose more risk to the parties?

Patrick Stone’s response:

“It's funny. If anybody wants specific information, Alan Fields, who is the head of our underwriting department, has some really good information on crypto. Really, the issue on crypto is more on the escrow side than the title side. And why is that? Because the valuation on crypto changes dramatically every day. So how do you do an escrow with crypto? I couldn't. I don’t think we can. Right? So that's the problem that we have with crypto. There's a lot of other issues. You know, you’ve got to do a 1099. There are a lot of issues around crypto. If you want specific information on that, I'll forward Alan's thinking on it. But crypto I still don't think is a meaningful… it doesn't have meaningful functionality in terms of real estate. There's just too many issues with it. And I personally don't like any sort of monetary instrument that's not embraced by the government. I think that's your problem. But the rapid change in value makes it very, very difficult to use crypto for anything to do with real estate.”

Will lower interest rates drive inflation and prices up?

Dr. Bill Conerly’s response:

Not in this case. There could be times when cutting interest rates, too much stimulus, does drive inflation and prices up. In this particular environment, the Fed is being cautious about cutting rates. I think they'll cut rates to prevent inflation going too low, but I don't believe it's going to be inflationary by itself. So that's one of the things I'm not worrying about.”

What are some strategies that title agencies can implement to remain competitive in a challenging market?

Patrick Stone’s response:

“I think the outreach to the client base is critical. Now, one of the problems that I've always had in this industry, and every one of you has in this industry, is how do you differentiate yourself? How do you differentiate yourself from your

competitor down the street? I'll tell you one thing that's worked for us, and for me personally, is to convince the client that we want to be a part of their process. And, Gene said it earlier, if they make more money, we make more money. Right? Now he was talking about you, but for you, that's your clients. So you need to convince your client you want to be a part of the process. And the way you do that is you say, 'I don't want to sell you anything. I want to know how I can help you do what you do better. So let's talk about your process, how you interact with title companies, how you interact with lenders, how you interact with the client. What can we do to make your process better? Because I want you to be successful.'

"I'm being a little bit general here, but things vary dramatically state-to-state in our industry. But really think about how you can connect with that client and talk about what they do, how they do it, and what you can do to help that be better. Sometimes you can't really do much, but the fact that you care will change their opinion of you compared to your competitors. Alright? Make it about the client. We're not selling the client something. We're helping them realize success in their process. What we do is a part of their process. So talk about them in that way. Try to get them to tell you what they need or what they're frustrated with. I've been at this next month, it'll be 49 years. And I can tell you, countless times sitting across from a client, I tried everything in the book. And they go, 'Yeah, yeah, yeah, okay, yeah, right. I'm really interested.' 'What can I do to help you? Okay, you can't think of anything. What frustrates you most about the title business?' Actually ask them. Don't be afraid of the answer. Make them talk to you. Okay? The old overcoming objections. I went through Xerox sales training back in the early seventies, spent two weeks overcoming objections. Really work at getting people to tell you what they're thinking, what they're worried about, what they need, or what they're frustrated with. You'll differentiate yourself if you change the way you relate to the clients. Now you're going to hear a lot about technology. We want to help you. As Gene said, we want to help you at every level. We want to help you be successful. But really think about being a part of the client's process. In my mind, that's the key issue."

What will drive the housing market more: Lower interest rates are more inventory?

Dr. Bill Conerly's response:

"Well, what would help right now is more inventory. Lower interest rates in the long run really does help, but I think that more inventory. Pat is absolutely right that there has been a slowdown in movement, people moving from house to house. Also, geographic migration has slowed down. People don't want to leave friends and family behind, and that's a sign of a wealthier community. My parents grew up poor and moved across country for opportunity that made sense. People who grow up more comfortably are less likely to move. So, I think there has been a slowdown, but I still think that the current interest rate environment has led to low inventory of available homes.

"Imagine a family that says, 'Gee, we've got monthly payments. We could afford to be making higher payments. Maybe our payment could go up 25%.' And they think, 'Oh, we can afford a 25% higher payment. Maybe we get a bigger house, a newer house, a better neighborhood.' And then they start thinking about walking away from their 4% mortgage and getting a six-point-something percent mortgage. They've blown their budget. So, I think that the existence of all those low interest rate mortgages is slowing things down in the country. Some economists do mathematical modeling on a concept. And the concept is important, though the math is not terribly important. The concept is path dependence, and that is saying 6% mortgage has a different impact on business if it's 6% up from 4% or if it's 6% down from 8%. And we're seeing six-point-something percent up from 4%, and that means there are a lot of people who want to keep that mortgage of theirs. So I think that is very significant."

Does a down market present any opportunities for business?

Patrick Stone's response:

"Yes. Yes, yes, yes. You want to grow your business, a down market is actually the best time to get aggressive in your marketing and sales. And I'll tell you why. Because most of your competitors aren't. Alright. Straight up. If you are active,

proactive, and engaged with potential clients in a proactive, positive manner, they will identify with you and want to do business with you. I have gained more market share in my career in down markets than up markets. In up markets everybody spends a tremendous amount of money on marketing and sales. They're out there beating the bush, they're out there talking. They're promoting this, that, and the other thing. In down markets, they go silent. They become inner-focused. They cut costs. They don't interact with the client. Use this as an opportunity to differentiate yourself from your competitors. Okay? Get out there and talk to people. Down markets can be a very positive environment in which to be successful if you're active, proactive, and positive. And hopefully we've given you enough information today that you can tell a positive story to your potential clients and you can interact with them and show them that you not only care, but you've got an attitude that will result in success."

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About Patrick Stone

Patrick Stone is Chairman and Founder of Williston Financial Group, the Portland, Oregon-based parent company of several national title insurance and settlement services providers, including WFG Lender Services and WFG National Title Insurance Company. Stone's lengthy career in real estate and related services includes C-level positions with three public companies and serving as a director on two Fortune 500 boards. His senior executive management positions include nine years as president and COO of the nation's largest title insurance company, chairman and co-CEO of a software company, and CEO of a real estate data and information company. Stone also served as vice-chairman of Metrocities Mortgage, a 2005 top-20 mortgage lender, and as chairman of The Stone Group, an Austin, Texas-based tenant-represented brokerage company. In 2013, Inman News named him one of the year's '100 Most Influential People in Real Estate.' Stone received HousingWire's coveted Vanguard Award for lifetime career achievement in 2019 and again in 2021, was recognized in 2019, 2020 and 2023 as a Lending Luminary by Progress in Lending, and was the recipient of October Research's annual Leadership Award in 2020.

About Dr. Bill Conerly

Bill Conerly has a Ph.D. in economics from Duke University and more than 30 years of experience helping companies adapt to changing economic conditions. He was formerly Senior Vice President at a major bank and held positions in economics and corporate planning at two Fortune 500 corporations. He is also an online contributor to Forbes, chairman of the board of Cascade Policy Institute, and the author of The Flexible Stance: Thriving in a Boom/Bust Economy (2016) and Businomics (2007), a book about economics for business leaders. To subcribe to Conerly's monthly newsletter, visit: https://conerlyconsulting.com/newsletter/