<u>THE LONG VIEW</u>

By Frank Pellegrini
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For the past year the ***Title Matters*** writers have brought you stories of the sometimes tragic consequences that result from real estate transfers without title insurance. You heard about sinister and heartless builders, careless notaries, overlooked restrictions, clever fraudsters seeking opportunity in times of crisis, diverted wires, the notion of "title" not understood, lack of integrity, and ethical lapses. I am departing from these themes to bring you the view from 40,000 feet above the land we insure.

To help me guide you on this high-level journey, I have called upon my good friend, Hernando de Soto (shhhhh – he doesn't know me and doesn't know I am his biggest groupie). As you have frequently heard me say, Hernando is the worldwide spokesperson for title insurance – and he doesn't even know it. To remind you, Hernando is a Peruvian economist and has written extensively about the underlying foundations of America's wealth. Simply stated, his view is that wealth is created through the function of reliable records of ownership and well-established processes of transfers which allow property to be used for virtually any type of transaction. It can be sold, divided, aggregated, combined, mobilized, and, most importantly, collateralized.

Americans can leverage their property to start new businesses, invest in opportunities, buy cars and boats and vacations, pay for higher education, and build a nest egg for retirement. All this is the jet fuel for our economy.

When Hernando compares the "West" with under-developed economies he always seems to come back to these principles. In a recent commentary that he wrote for the Wall Street Journal, he tells about the two billion people in the world who work in the "informal economy" and have title to most of the surface of the earth, but cannot exploit its value. Hernando estimates that they are sitting on $150 ***trillion*** of proven reserves, but are unable or unwilling to leverage their title. Why can't they?

> "Because their titles need a chain of certifications issued by escrow and closing organizations, … title and fidelity insurance firms, originators, underwriters, securitizers, and other agencies. This process is so ingrained in American society that it is taken for granted.
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> "Once this value chain of certifications is packaged in a file … that ***title*** will be acceptable at the reception window of a bank as a pledge and credited in its accounting books as an asset, and – voila! – it is ***capital***." (emphasis added)

Doesn't this all sound very familiar? It should; Hernando is talking about what we do every day. His piece for the Wall Street Journal is intended to depict the dire circumstances in underdeveloped countries made impossibly more difficult through the economic ravages of the pandemic; and, he sounds an alarm for the world's biggest economies.

He concludes this way:

> "Those in the informal economy are willing to embrace capitalism. Whether it will be China's or America's model will depend on which country understands that while no one was looking, the poor inherited the surface of the Earth, and that they will favor whoever helps them use their legacy to create capital rather than destroy it."

You can read the whole article here.

I gave you Hernando's; now here is my conclusion. While we can take great satisfaction in protecting the most important asset of most families, we can also take deep pride in facilitating the creation of wealth. The wealth that Hernando identifies is not incremental to that of moguls and tycoons, but wealth which can be leveraged to alleviate the condition of the world's poorest inhabitants.

Now, let's go in for a smooth landing and get back to work.