

TRUE INVESTOR E-DELIVERY STANDARDIZATION

Will mortgage lenders act or wait for the government to make them enact standards?

No one questions that the health of the mortgage market depends on investor confidence. These days the eyes of many vendors and service providers to this industry are focused on the need to give investors ways to assess the value of loan pools and mortgage-backed securities. Toward that end, for example, when TransUnion and First American CoreLogic released a new tool called Consumer Risk Indicators, a stated goal was to bring greater loan-level transparency into residential mortgage-backed securities. The tool incorporates matching algorithms that “link individual loans within non-agency mortgage-backed securities to the consumer credit information of the specific borrowers of those loans” for risk assessment of whole-loan bids and portfolio monitoring.

BY
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Photo By Media Bakery

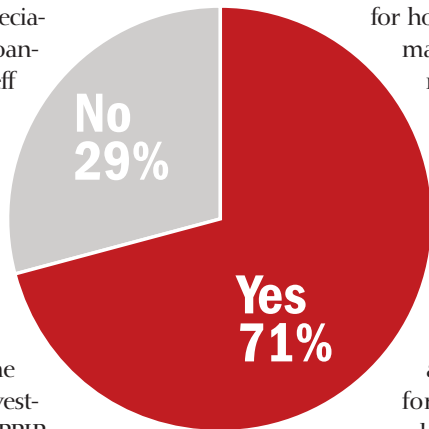
"Billions of dollars in mortgage securities were traded without visibility into the risk of the underlying borrowers of the loans backing the securities, focusing instead on pool-level home price appreciation and initial loan-to-value," said Jeff Hellinga, president of TransUnion's U.S. Information Services division. TransUnion knew that greater transparency would be required to draw private capital to the Public-Private Investment Program or PPIP and other government programs and thus get the market back on track.

The First American CoreLogic Loan-Performance Securities Database, spans subprime, alt-A, option ARM and jumbo securities, and represents over \$1.8 trillion in loan-level data, or 96% of non-agency securities. In the current downturn, the flight of investors from risky mortgage loans certainly was not confined to subprime. The market for private-label MBS crashed across all credit grades.

Santa Fe, N.M.-based Thornburg Mortgage, for example, boasted that it lent only jumbo loans to wealthy, creditworthy borrowers. Nevertheless, the mortgage and credit crises forced publicly traded Thornburg to close its doors, as mortgage lending volume declined and the value of investments in mortgage securities plummeted when investors shied away.

The breadth of the investor-confidence problem has raised fundamental questions about the standards governing mortgage market operations. In a Dec. 4, 2008 speech at the Federal

Should the ASF recognize the validity of MERS and embrace the MIN as the standard?



Source: Electronic Mortgage Technology Newsletter

Reserve System Conference on Housing and Mortgage Markets held in Washington, Fed Gov. Randall Kroszner warned that "markets for private-label MBS are unlikely to recover unless comprehensive and standardized data for home mortgage pools are made widely available to market participants."

He commended the American Securitization Forum for its large-scale project RESTART (Residential Securitization Transparency and Reporting) "to develop a standardized format for mortgage data that would be available to all investors and other market participants, with the goal of substantially improving disclosure and transparency related to private-label MBS."

The stated RESTART objectives were "to increase and enhance initial and continuing pool information for RMBS, strengthen and standardize core representations and warranties as well as repurchase procedures for RMBS, and develop industrywide standard norms for RMBS servicing duties and evaluating servicer performance."

While the ASF RESTART effort has gained the blessing of investor bodies around the world, including the Australian Securitization Forum, the European Securitization Forum, and the Securities Industry and Financial Markets Association, the initiative raised a storm of controversy within the U.S. mortgage industry on two counts: ASF's willingness to jettison the MERS Mortgage Identification Number, and its proposal to require monthly reporting.

Some mortgage technology veterans see a lot of value in the ASF RESTART initiative.

"In principle, I agree with the ASF's

push for standards and transparency, especially in the area of reps and warranties, repurchasing procedures, standardizing due diligence information and loan pooling and servicing agreements," said Drew Krieger, CEO of e-mortgage and e-vaulting vendor Encomia.

"I feel that the area of loan pool data mapping and reporting has been under-represented in the previous standards efforts."

By Aug. 22, 2008, ASF said it received approximately 50 responses to its July request for comment from industry participants.

"Nearly all commentors applauded the work of the project as a necessary step to restoring investor confidence in residential mortgage-backed securities," said ASF in a Feb. 9, 2009 Request for Comment and "proposed package of data fields to be updated monthly by RMBS servicers throughout the life of an RMBS transaction." The project currently recommends separate disclosure standards for documentation "for each of the separate elements of income, employment and asset verification and the use of newly created codes indicating which level of verification was performed."

To address the problem of fabricated tax returns, for example, the project commended use of an IRS Form 4506-T and included a 4506-T indicator in its proposed disclosure package.

"One of the market standards recommendations included is that every loan should be assigned a unique identification number," said an ASF article co-authored by deputy executive director Tom Deutsch and analyst Katherine Seid of The American Securitization Forum.

The article said that the identification number "would help identify and track the loan throughout the secondary market, regardless of who holds legal title to or services the loan at any particular point in time."

The article stated, "Project RESTART leaders have interviewed multiple



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vendors to provide the standard loan identifier and have evaluated the variety of unique capabilities and perspectives. Chief among what the project is looking for in deciding which company to choose is the ability of a vendor to protect borrowers' privacy, the associated costs of obtaining the loan identifier, potential synergies offered by the vendor, as well as the vendor's existing infrastructure that may facilitate the implementation of a loan identifier system internally for issuers and originators."

The Project names Equifax and Standard & Poor's as the two vendors under consideration to provide the loan identifier, pointedly omitting any mention of the existing 18-digit MERS mortgage identification number as that tracking number. Both Fannie Mae and Freddie Mac currently re-

loan number in the mortgage industry needs to be connected to the CUSIP."

In a six-page March 24, 2009 letter to Tom Deutsch at ASF, Mortgage Bankers Association president John Courson said MBA members "have expressed concern that MERS was not selected," despite the fact that the MIN "has been assigned to 58 million loans representing 60% of the market."

Mr. Courson noted that MERS already has the infrastructure required "to accommodate offering loan identifiers for mortgages and other assets." He also took issue with the breadth of the proposed ASF disclosure package, stating that the "package's implementation and compliance costs may outweigh its informational utility to investors."

He urged ASF to consider whether IRS filings by certified independent

cal extension for incorporation into any ASF efforts."

"As far as how the standards are operationalized, ASF is not looking at the MBA, MERS, or MISMO efforts and they should," said Mr. Krieger. "These organizations have done good work to date, but chaos in the industry is hindering adoption. I would like to see a uniform standard developed and adopted and believe that a combination of the work MISMO has done and the direction ASF appears to be going would provide a strong option — and that includes ASF recognizing the MIN number."

Mr. Krieger's main quarrel with the ASF standards initiative is the timing. "The big problem with the ASF standards as written is that if lenders were forced to immediately implement them, it would be a train wreck. There is no viable way for lenders to meet the reporting requirements in a paper-based, manual world. The industry simply lacks the infrastructure and manpower to report monthly on the required data elements. Technology should be used to mitigate this issue. There is simply too much data out there and the transparency issues are too big to not evolve mortgage banking into an electronic process.

"Once the top five or six banks get their houses in order," he predicted, "they will have unprecedented market power to drive the adoption of lending standards and technology. I expect tremendous changes and improvements in the industry as a result of adoption of the proposed standards, but it will take the big banks working in conjunction with industry standards boards, the federal government and technology providers to drive the adoption."

"The Mortgage Banking Association and the government are doing what they can with the limited tools they have in this difficult market. But they're chasing a shadow right now," commented Chip Larson, president

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—Drew Krieger, Encomia



quire that all e-mortgages sent to them have the MIN.

At the root of the MIN controversy is the fact that there is a competing identification system, the CUSIP (Committee on Uniform Securities Identification Procedures), owned by the American Bankers Association and operated by Standard & Poor's. The CUSIP number consists of nine characters to identify a company or issuer and the type of security.

Foreign securities are identified by the CUSIP International Numbering System. Rather than eliminate the MIN, said R.K. Arnold president and CEO of MERSCORP Inc. and its subsidiary, Mortgage Electronic Registration Systems Inc., "What we've been saying is that the MIN as the universal

tax preparers might substitute for costly 4506-T filings.

A straw poll published in the *Electronic Mortgage Technology Newsletter* showed that 71% of respondents are in favor of ASF adopting the MIN.

"The MERS MIN is a well-established and mature technology," said Michael Coar, president of e-delivery vendor VirPack. "I think it is also relatively safe to assume that anyone in mortgage lending knows what a MERS MIN is. While the MERS MIN was initially associated with loans recorded to MERS, MERS has been very active in promoting the MIN as a means to track any loan from origination through closing and delivery to the secondary market. Since many loans are started and tracked with the MIN, it seems a logi-

and managing partner of Carlsbad, Calif.-based Home Equity Partners, a new player in the distressed mortgage asset market.

"We believe the real estate industry is becoming more dynamic. The market is fluid, the players are changing and private equity is starting to step into this space. All the standards and best practices of the past work only in a stable environment. In this new economy, value propositions for homes and loans are being redefined as we speak. Home Equity Partners is not going to wait for industry standards that may be obsolete three months from now. We have developed our own 'secret sauce' using analytics with proprietary tolerance levels and external data points from nontraditional sources.

"Over the next year or two, there will be a feeding frenzy in the real estate market," said Mr. Larson. "If you try to create standards while the variables are still moving, it's like trying to stake a claim in the sand. It's just not worth it. After these large pools of distressed assets get worked out is the time to put some industry-wide standard into place."

"Some people tend to be overzealous about what you can get from a standard," agreed Mr. Coar. "However, there does have to be some guidance on transactions that are repeated over and over again."

He sees actual mortgage industry standards adoption as being driven at a more granular production level, rather than imposed from without. "An example is the HUD Electronic Case Binder process. In that spec you have an opportunity to have sweeping adoption of standards now that the market has shifted to FHA products. Due to HUD's extremely tight document quality requirements, the lender will need to pay closer attention to the content they create internally, and more importantly content received from their partners such as appraisals.

Everyone will benefit from this much-needed attention to detail."

Along these lines, FHA will be stepping up further by publishing full electronic mortgage standards by the end of this year. Flagstar Bank has confirmed that it is working with FHA on the e-mortgage side and expects to sell FHA e-mortgages by the end of this year.

At the MBA Tech Show, Deborah



The MIN as the universal loan number in the mortgage industry needs to be connected to the CUSIP.

—R.K. Arnold, MERSCORP

Holmes, vice president and chief information officer at Ginnie Mae, said, "We have a lot of government mandates, regulations and laws we have to comply with. One mandate is that we reduce paper and our cost to operate. We've had to leverage the Internet to achieve these mandates."

Jo Ann Kuczma, director of the home mortgage insurance division at FHA added, "We know we need to work in a paperless environment. Our goal is to receive all mortgage documents electronically and update FHA systems with all required information so that manual input of information by lenders is not required."

To this end, FHA is looking to pilot full e-mortgages. In fact, the FHA has already circulated a seven-page draft of its e-signature specifications. Going forward, FHA will work with industry participants to flesh out the specs for eventual industrywide adoption.

"This says that we've passed the tipping point on 'e' adoption," stressed Kim Weaver, vice president of product management for Fiserv's eLending Platform.

"Considering that Fannie and Freddie control most of the industry and

FHA controls the rest, this is exciting. My hat is off to FHA for taking this next step because it will benefit its originators. In the case of what FHA is doing with its e-mortgage standards, their willingness to work on documents across the lifecycle of the whole mortgage and not just the note is huge."

"Electronic mortgage standards already provide the architecture for

complete transparency of information, but it is certain industry participants who have a vested interest in keeping the process opaque," observes Stanley Street of the warehouse-lending technology provider Street Resource Group.

"It is outrageous that ASF wants to say goodbye to the MIN and add another layer of complexity," Mr. Street commented.

"It's not known how many loans there are in the United States," says Mr. Arnold. MERS wants to change that.

Once every loan is on the MERS system, the effort to track fraud and monitor loan quality will be greatly simplified, he noted, because of the universal MERS integration in today's LOS systems.

"Every system in the mortgage industry can switch MERS registry on or off at will," Mr. Arnold said, noting that the Obama administration and Congressional leaders are well aware of that.

In his view, the likely question now is whether MERS registry of all residential loans will be voluntarily enacted by the industry or mandated by law. **MT**