



MBA's NATIONAL SECONDARY MARKET
CONFERENCE & EXPO 2010
MAY 23-26, 2010, NYC

Using Technology to Ensure Quality in the Loan Origination Process

Kirk Park
Universal American Mortgage Co.



- Loan origination systems (LOS) are the main hub for storing, organizing, tracking, and processing information during the origination process from prequalification to post-closing.
- LOS must be user friendly and have logical work flows
- Flexible enough to communicate with a multitude of other systems
- Validate loans for basic underwriting guidelines and overlays
- Manage the disclosure process
- Prepare closing documents
- Store all contacts, counterparties, etc.



- Credit reports are being used to verify more and more information about our customers. Credit agencies are adding new systems and competing with other vendors to provide more verification tools.
- Trade lines, Inquiries, SSN's, Date of Birth, AKA's, Public Records, Addresses, Past Employment, Office of Foreign Asset Control (OFAC), Fraud Alerts, Credit Supplements
- New systems are being put in place to speed the process of verifying inquiries and trade lines that occurred after the initial credit report to prevent undisclosed debts
- Second credit reports prior to closing will help, but this introduces new logistical challenges and underwriting headaches.



- Originators are now required to make sure that all parties to the transaction are in good standing
- Limited Denials of Participation (LDP)
- Government Services Administration List (GSA)
- Excluded Parties List System (EPLS)
- Credit Alert Interactive Voice Response System (CAIVRS)
- Office of Foreign Asset Control (OFAC)
- Investor / Agency ineligible party lists (appraisers, brokers/LO's, title companies, other vendors and parties to the transaction)



- Collateral is perhaps the most important of the three C's of lending (collateral, credit, and capacity).
- Appraisals are now held to much higher standards
- Appraisal review technology has come a long way
- Appraisal risk scoring, additional comparable sales reports
- Automated Valuation Models (AVM), Home Value Explorer (HVE)
- Home Valuation Code of Conduct and Collateral Management Systems must be used to prevent inappropriate influence in the appraisal process
- Title reports are still an important part of the collateral review process to ensure clear title, check the chain of title to avoid flipping schemes, etc.



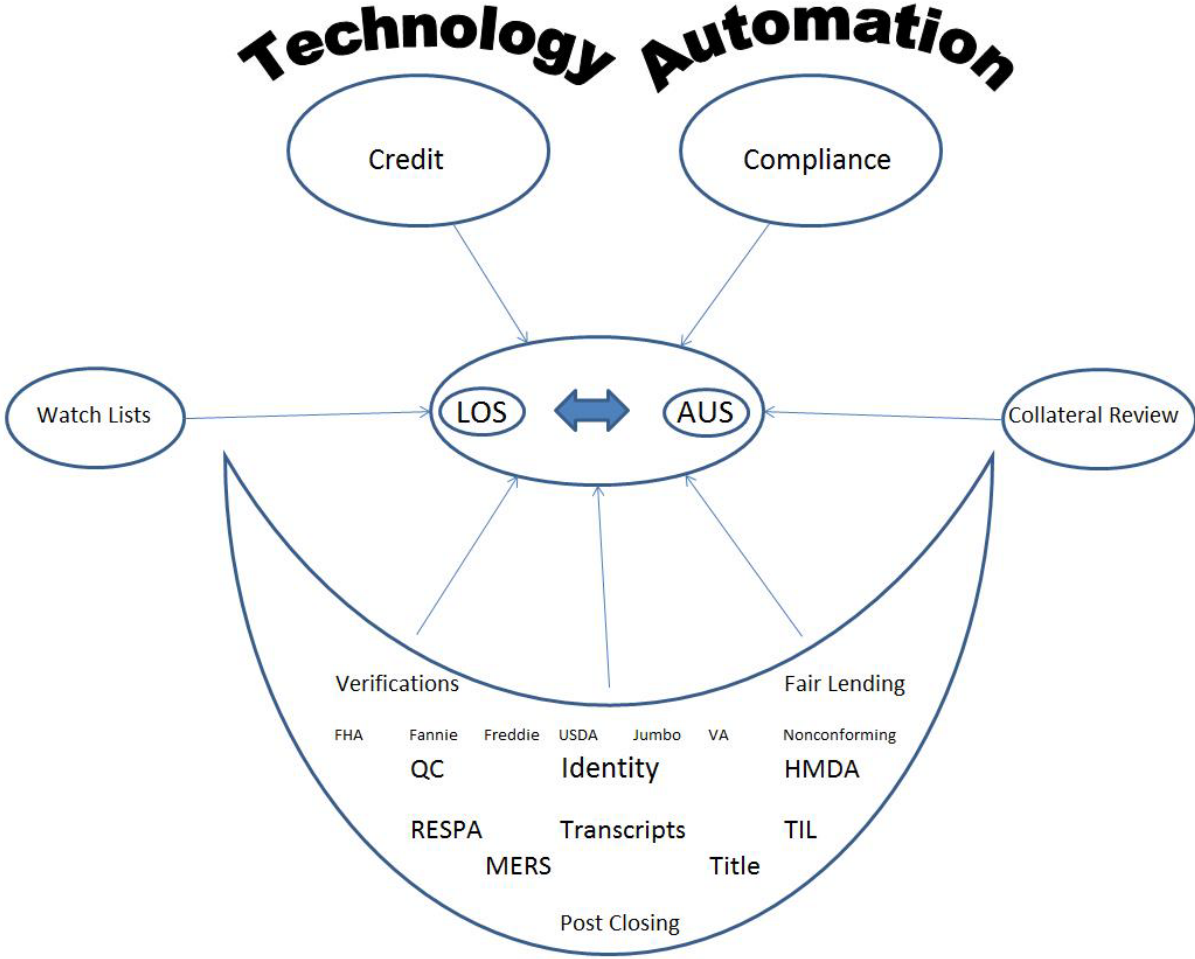
- VOM, VOR—Do it yourself, or use vendor technology
- Written and Verbal VOE's, The Work Number—Up-to-date, re-verify before closing
- MERS reports to reveal undisclosed or recently acquired mortgages
- Tax Returns must be validated via executing the 4506T to pull transcripts from the IRS. Information other than income such as address, additional jobs, other properties owned, etc., must be compared to the customer's application



- AUS have evolved from matrix and guideline validation tools to more complex and flexible underwriting engines.
- Instead of relying on separate guidelines and overlays, AUS are now reinforcing requirements related to credit, identity, watch lists, etc.,
- Some AUS are now automatically incorporating AVMs to help in the collateral review process
- AUS will continue to evolve to help prevent fraud, ensure quality, and streamline processes



- Random Samplings, Pre- and Post-closing
- Specific Audits for EPD, Investors, Auditors
- Re-verify the verifications!
- Additional Appraisal Review
- Check guidelines, validations, AUS findings, Compliance, Transcripts, Watch Lists, etc.





- Market conditions, frequency of fraud, lack of investor confidence, and the need to limit liability have created the demand for new technology to ensure quality and restore confidence
- Some technology already exists, but will only improve and become more efficient over time
- Formats will become more standardized allowing systems to be streamlined
- Some new capabilities will be built into the AUS, while existing technology will remain connected to the central LOS hub.
- If all of these new quality measures are applied to and adhered by all lenders and loan types, confidence will return.