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MT MORTGAGE TECHNOLOGY

August 2011

Exploring Return on Automation

FIGHTING FRAUD

Interthinx's Ann Fulmer answers our questions

Selling REO | MT Awards Finalists | RESPA Compliance

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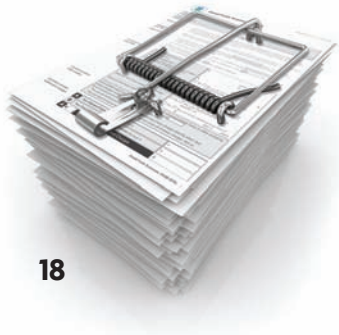

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LendingSpace

Some of the biggest names in the mortgage industry trust LendingSpace. *What do they know that you don't?*

Success in the mortgage industry doesn't come easily anymore. Today's mortgage bankers need to be at the top of their game and ready to take advantage of every opportunity. It's why more of the movers and shakers are shaking things up in their own companies by choosing LendingSpace.

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EDITOR'S NOTE

Learning the Ropes

In next month's issue, *Mortgage Technology* will announce our annual list of Top Tech-Savvy Lenders. Unlike our Top Service Providers list, which goes to those on the supply side, most of these forward-looking lenders are on the demand side—noteworthy users of technology to improve processes, provide exceptional customer service and increase business.

This year, for the first time, we've asked for nominations from the outside (and even self-nominations) in an attempt to get as wide a showing as possible on our list.

In addition, for the first time this year, we intend to recognize those lenders on our tech-savvy list at our annual Mortgage Technology Awards ceremony, to be held on Sunday, Oct. 9 at the Fairmont Hotel in Chicago. Please save the date for what promises to be another big night for the mortgage technology industry.

In recent years we have expanded our MT Awards to include more lenders as well as vendors. Last year's Innovative Lender Award went to Torrington Savings, a good example of a tech-savvy lender even though it is a smallish Connecticut lender with just six branches. The thrift installed an SaaS (Software-as-a-Service) package to leverage its technology effort and reduce costs.

Angelo Mozilo famously said that his Countrywide Home Loans was a technology company that made mortgages. While nobody would point to Countrywide as a good example of anything any more, that kind of attitude is still a good one for a lender that wants to embrace technology.

MARK FOGARTY
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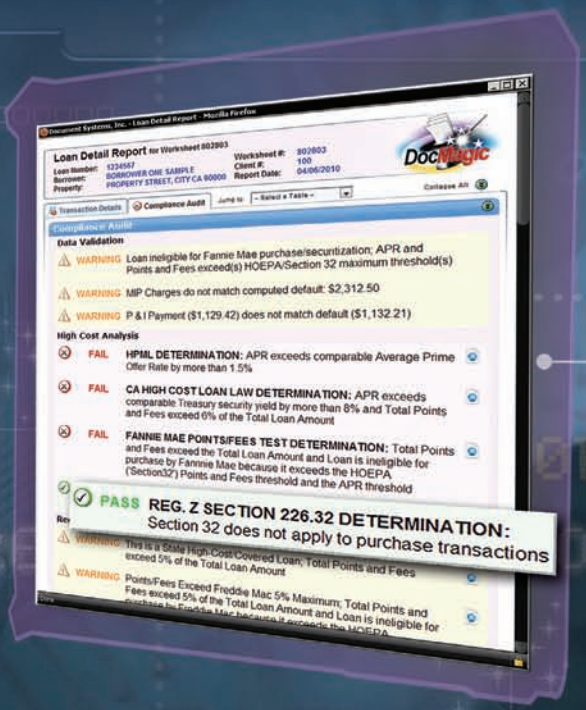

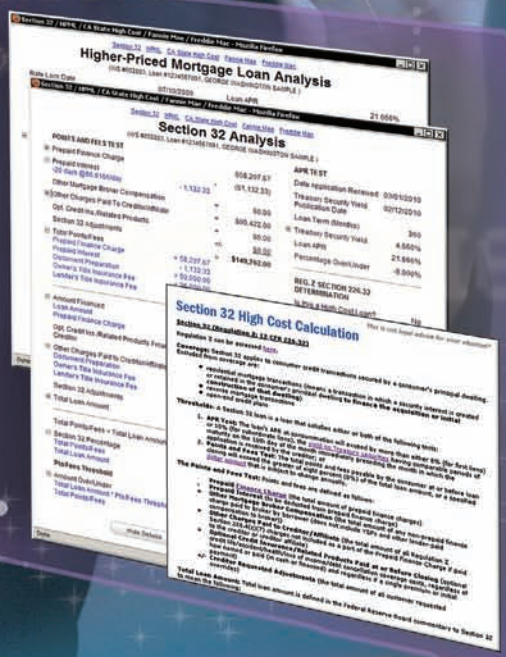

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By the Book

Centralized business rules make it easier to follow evolving lender policies.

IN ORDER TO PLAY A GAME OR A SPORT, participants first have to learn the rules. It's the rules that help ensure each game is played the same way, no matter where and by whom it's played. In business, a rule is a business intent in the form of an action or constraint over a process that deploys or enacts a business policy. When a company establishes business rules and employees follow them, operations run smoothly and processes and procedures are both consistent and correct.

However, unlike a game, the business world isn't static. Parameters change, which means that the rules that govern the behavior of the business—its technology, policies and people—must also adapt to new realities. This is particularly evident in the mortgage industry, where new or revised policies, regulations and laws are regularly enacted. With the pace and complexity of change, it can seem almost impossible to manage this dynamic environment. But if the business does not adjust as rapidly as required, there can be severe consequences as regulations are violated and processes fail to support the mortgage continuum. Today, more than ever, mortgage companies cannot afford these consequences. Centralized business rules can help avoid them.

Creating a Centralized Rule System

All companies document their policies and procedures. They create manuals and training guides and upload them or email them so all employees have copies. As a result, many companies believe that these electronic documents are the equivalent of a centralized rule system. But they aren't. They're simply written documents companies distribute, leaving the onus on employees to read and comply with the information contained in the documents. Unfortunately, people don't always read the documents, or there are so many documents that employees attempt to create their own rule system.

This personal rule system often means a spreadsheet or sticky notes on their computer to remind them of the rules—or worse, to document new rules. Certainly not the best scenario given the complexity and risk associated with the mortgage industry. Further, when the information provided to employees is subject to interpretation, they are left to use their personal judgment—rightly or wrongly.

These problems are eliminated when a company creates an automated centralized rule system. By creating a centralized repository, companies can ensure that both employees and systems following the rules do so consistently, regardless of how often they change. Creating a central repository that is unequivocally controlled by management and that every person and system uses means accuracy is ensured and regulations are met.

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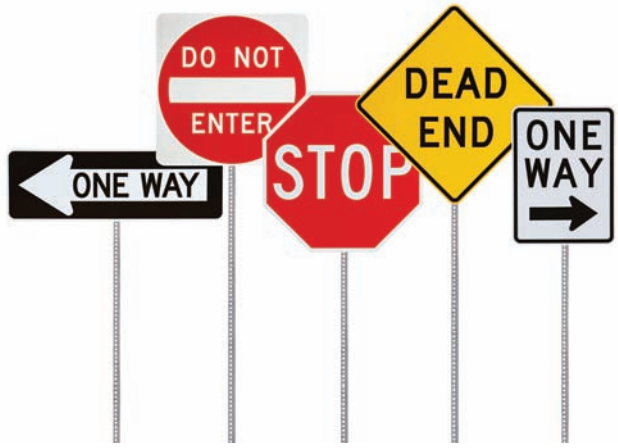
LEGALINSIGHT | by Ravi Varma and John Socknat

Compliance Crossroads

Technology that addresses new regulations has to be designed with the help of policy experts.

UNPRECEDENTED REGULATORY CHANGE is driving a full transformation of the mortgage finance business model, and regulatory compliance issues impact all lenders, whether they are depository institutions or independent mortgage companies. In this brave new world of financial regulatory reform, executives face myriad challenges at a time when their compliance resources are stretched thin and their IT teams struggle to integrate compliance into existing systems.

To put the immensity and complexity of regulatory reform into perspective: Over the last 18 months, the mortgage industry has had to grapple with an unparalleled number of new federal and state laws, and will continue to do so over the course of the next 18 months. In addition to significant changes to the Truth in Lending Act and Real Estate Settlement Procedures Act, the industry has had, and will continue, to navigate its way through changes to the Home Mortgage Disclosure Act, Fair Credit Reporting Act, SAFE Act, appraisal independence rules, plus a host of state laws that can go beyond federal rules and regulations.



These changes are in effect or have rapidly approaching effective dates, even as the industry awaits further clarification and final rules for many provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act from the Consumer Financial Protection Bureau, as well as ongoing rule making from the Federal Reserve prior to the transfer of certain authority to the CFPB.

As the above overview makes clear, lenders cannot rely on manpower alone to meet compliance requirements. It is simply too prohibitive in time and cost. Lenders must leverage technology—integrating compliance issues into systems such that compliance is a natural part of the workflow from initial loan origination lead management, up to and including secondary marketing. And not just any technology will do. The most desirable, effective technology solutions are those that have been designed by compliance experts working closely with IT teams to build superior rules engines and automated decisioning protocols that accurately, cost-effectively and seamlessly ensure compliance. These systems need to be flexible and adaptable to deal with ongoing changes to the regulatory and compliance landscape.

The concept of compliance and workflow integration facilitated by technology is gaining the attention of mortgage executives eager to bring compliance costs under control.

In January of this year, the MORTECH 2010 annual study estimated that mortgage lenders expect to increase technology spending by 15%, which would be a $4.11 billion cumulative spend.

Among the top reasons for IT investment, survey respondents said they plan to invest in "making operations more flexible and responsive, reducing cost of operations, and integrating workflow across the enterprise." The study concluded that these IT investment plans are directly linked to the rising costs of regulatory compliance and the desire to improve operations.

While figures are not yet compiled for the time and money spent as an industry, thus far, to implement new regulations, it is safe to assume that number is already well into the hundreds of millions. Recognizing that compliance is now a potentially high-cost permanent (variable or fixed) operational expense, mortgage industry executives should be asking: Which technology solutions address comprehensive, long-term compliance and workflow needs, while delivering superior return on investment?

The anecdotal evidence observed in the industry suggests that, over the last 18 months' deluge of changes, most lenders "patched" existing tech or purchased compliance modules that plug into other systems.

While these adaptations may have made perfect sense as short-term solutions, it is clear that end-to-end, enterprise technology designed in partnership with compliance experts is a much wiser, cost-effective and efficient solution. We can turn to loan officer licensing, a compliance matter initially addressed in the SAFE Act, to illustrate this assertion.

Over the last 18 months' deluge of changes, most lenders "patched" existing tech or purchased compliance modules that plug into other systems.

Today, technology solutions available in the marketplace can assign a sales lead to a mortgage loan officer, based on automated confirmation that the LO is licensed or registered and has a unique identifier provided by the Nationwide Mortgage Licensing System Registry.

But technology solutions that deliver one-time ID confirmation are not sufficient. Technology solutions should also be able to routinely exchange information with the NMLS. A superior, end-to-end solution goes even further, with automated licensing confirmation following the transaction at the loan-level from application through funding.

For example, if an LO's license expires during a loan application, an end-to-end solution would receive this information from the NMLS and note that there is a problem so that appropriate action can be taken, including reassignment of the loan file to an LO who is properly licensed/registered.

Other features should include the ability to supply proof of licensing—both in real time and as historical data—when and where required, and in a manner or format requested by any number of federal and state entities. For example, the ideal technology solution should be capable of gathering licensing information from the loan origination system, and then transmitting the data to the NMLS in a format consistent with NMLS Mortgage Call Report requirements.

Technology solutions designed in partnership with compliance experts are much more likely to be comprehensive; built with special knowledge of the array of regulations, the multiple regulatory bodies involved, and an in-depth understanding of the need to access to loan-level data not only in real time, but also historically.

Such enterprise solutions accurately store data so you can show how compliance was addressed in the past, giving your firm the ability to show regulators a snapshot of what happened on a particular loan, on a particular day. In practice, regulators also may ask to see an image of virtually every document, correspondence and other communication, as well as pertinent information about the loan officer and others involved in each loan file.

The importance of a comprehensive solution becomes more apparent when a wide-reaching regulatory rule-making matter is under discussion. One such matter is loan officer compensation.

In April 2011, the Federal Reserve final rules on loan officer compensation took effect, amending Regulation Z of the Truth in Lending Act. Loan originator compensation, especially the payment of yield-spread premiums to mortgage brokers, had been a point of debate between regulators and mortgage originators for more than a decade.

The new rules prohibit compensation based upon the interest rate or other terms or conditions of a loan, while permitting compensation based on a fixed percentage of a loan's amount. They also prohibit compensation of a loan originator by both a borrower and a lender or other party, as well as prevent steering a borrower into a loan on the basis that the loan originator will receive greater compensation than from another loan.

From a technology standpoint, the rules impact the entire chain of actions in a loan origination system at the loan level, from point of sale through loan funding and closing.

Disclosures documents, which are frequently auto-generated by the LOS at the time of loan application, must reflect the new rules and loan processing workflow routines must evaluate for adherence to "net tangible benefit" tests to ensure the loan is in a borrower's best interest.

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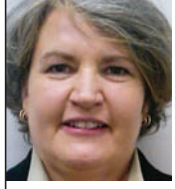

Data Transparency

Flexible lending programs are needed to boost housing recovery.

THE MORTGAGE INDUSTRY HAS SHIFTED SIGNIFICANTLY since 2008 and while there was hope that it would regain its footing quickly, that hope has dissipated with the reality of a much longer recovery.

Volume is down as potential homeowners sit out the market waiting for the true bottom or are unable to sell because their mortgages are underwater. Home prices continue to fall due to the glut of foreclosed properties and the looming shadow market, as well as, a resetting of market values due to short sales and REO. Housing demand has shifted from non-distressed properties to distressed properties. Wide ranging economic and loan quality conditions exist between local housing markets. Credit in the conventional market is only available to high credit quality borrowers.

Even the Federal Housing Administration's recent book of business has never looked this good, mainly due to lenders enforcing their own credit overlays. In 2010, Fannie Mae, Freddie Mac and the FHA owned or guaranteed 90% of single-family originations. Private lending is limited and has only recently shown some activity in jumbo prime loans. The fear of repurchases has not only tightened credit parameters, but reduced some of the multiple layers between the borrower and provider of funds.

Lenders continue to shut down wholesale businesses in both the forward and reverse mortgage segments and shift their focus to correspondent lending. Investors remain outside the process, limited to using mostly cash to fund the purchase of distressed properties.

Challenges

The mortgage market currently offers one-size-fits-all credit for potential homeowners and only FHA is serving the nonprime market. Tighter guidelines were clearly necessary but they may have become too stringent and are sidelining many viable homeowners that are a key component to recovery.

Many homeowners and potential homeowners now have lower incomes, lower credit scores and depleted savings, while first time homebuyers struggle with down payment requirements. Lenders are wary of the affordability challenges and of accepting credit risk while home prices are still falling and employment growth is sluggish. This wariness is only exasperating a downward spiral. This complex housing model, with its multiple layers between the borrower and provider of funds prompted lenders to focus on operational efficiencies in an attempt to control the size, diversity and risk of the business.

Many large lenders centralized their risk management organizations and developed risk-rating scorecards to manage asset quality, credit risk, loan policy and portfolio analysis. The goal was to improve operating efficiencies and maintain asset quality. These lenders moved away from an individual credit review loan focus and more on oversight work.

In essence, lenders shifted away from the micro view to the macro view, looking at fewer loans while focusing on enterprise wide credit process reviews and macro trends impacting the industry.

Despite all its complexity, but mostly because of it, the housing market remains a relatively paper driven process. For example, the FHA is still collecting paper loan files and limited data and does not expect to fully implement the collection of electronic files until 2012. Electronic mortgages have not evolved as expected and there is still a suspicion in the housing market that collecting every data element, and the footprint of each data element in the loan process, in real time, is still too much like Star Trek.

This seems to hold true especially where housing intersects with local, state and federal government. Obviously, the technologies that support the paperless mortgage life cycle are in varying stages of industry adoption. The mortgage industry is further along in the origination stages of the process, while the post closing technologies are still trying to catch-up which prolongs a hybrid process.

Embracing Market Shifts

Embrace the shift in the market because it might be with us for a while. If employment is a key factor to the housing recovery, the recovery of jobs lost in the recession is estimated to take another five years or more. This could mean a slow, incremental recovery process before all the pieces are in place for the market to take off.

This is an opportunity to collect, analyze and baseline emerging data such as short sales, loan modifications, distressed properties, underwater mortgages and current borrower demographic and credit profiles.

Develop regional policies and performance metrics that focus on controlling regional differences in housing market conditions. Utilize emerging data to understand each market to proactively gauge when each market will revive itself.

Product innovation is not dead. Credit unions are taking the lead in developing innovative products such as low down payment mortgages targeted to REO buyers and consumer-initiated interest resetting mortgages.

Using emerging, transactional and behavioral data to develop key mortgage product metrics will create opportunities to develop innovative products to meet the needs of the current market.

Developing an analytics tool and consistent reporting to target outliers and proactively manage product adjustments will provide lenders with the control they need to grow business and manage loan quality at both the loan and portfolio level.

Credit is Not One Size Fits All

The reality is that within the nonprime market, loan performance is not one-size-fits-all. The Government Accountability Office provided an analysis of the loan performance of nonprime mortgages in August 2010. Some of the factors that contributed to default were product type, limited documentation, higher LTV/CLTV, lower credit scores, higher loan amounts, declines in house prices and regional differences.

The interaction of these factors or the layering of risks determines a range of default probabilities. Capturing consistent, reliable data on higher-risk borrowers and loans will allow lenders to establish acceptable default probabilities for higher-risk borrowers.

FHA has been successful in developing a scorecard that determines an acceptable range of default probabilities based on lower down payments, higher loan-to-value/combined loan-to-value and lower credit scores.

The mortgage market needs a private sector nonprime lending option. Capturing and modeling robust, trusted data will build a more balanced nonprime business model in the private sector that considers volume, loan quality and data integrity.

Government and private sectors of the mortgage industry need to work together to carve out a realistic plan to make e-mortgages a reality. SMART documents provide access to complete, timely, accurate and reliable loan data. This data is a core component to facilitating the housing recovery by removing some of the uncertainty in the market and ensuring the mortgage market never again realizes the cost of poor quality at such epic proportions.

Government and private sectors of the mortgage industry need to work together to carve out a realistic plan to make e-mortgages a reality.

An effective data mining strategy coupled with accurate data will determine the competitive advantages in the future housing market.

Paperless mortgages provide a higher level of data integrity than the paper-based alternative. Errors are limited to data and document errors or fraud that occurs only at the time of document origination. The process includes comprehensive data verification and validation steps that target errors and fraud during origination.

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Photography By Brooks Kraft

FRAUD FIGHTER

Armed with technology and training, Ann Fulmer is a leader in the battle against mortgage fraudsters.

By Austin Kilgore

Ann Fulmer first encountered the negative consequences of mortgage fraud when a property-flipping scheme ran rampant in her suburban Atlanta neighborhood. She took the fraudsters on, using her experience as an attorney to investigate and root out mortgage fraud. Later, Fulmer co-founded the Georgia Real Estate Fraud Prevention and Awareness Coalition, which brought together regulators, law enforcement and the real estate and mortgage industries to combat fraud.

She is now vice president of industry relations at Interthinx. Her role includes developing tools for the Agoura Hills, Calif.-based company's risk management and fraud detection services and technology, as well as training law enforcement and regulatory agencies how to detect mortgage fraud and build cases against criminals.

MT: *How does your experience as an attorney help in your crusade against mortgage fraud?*

FULMER: Having a legal education teaches you logic and how to organize your thoughts and write and speak persuasively. More directly, I think it gave me a lot of insight into fraud and how you deal with fraud legally. Fraud is fraud is fraud. It's all about the lies, whether that be an active lie, where you misrepresent something or by omission, when you forget to tell somebody something.

MT: *How would you categorize the state of mortgage fraud in America?*

FULMER: When you look at our Fraud Risk Index, the overall level is down by approximately 30% from the peak, and that's my perception, too. We're doing better because we've closed off a lot of opportunities for the most egregious fraud like stated income, no doc loans and things like that. Lenders have also improved their processes. Instead of just putting a 4506-T in the file, they're actually using it to verify income.

That's good, but the problem is it's a cat-and-mouse game. Dealing with fraud is like a balloon—if you squeeze one place, it will pop out in another. Since we don't have no-doc programs anymore, we are now seeing more forged documentation.

MT: *If origination fraud is down, does that mean fraud is showing up in servicing?*

FULMER: Fraud is still there, but we're sort of back to where we started because we can't fully measure it. A lot of fraud is happening in short sales and loan modifications. The frauds that target the servicing and loss mitigation side tend not to be recognized or reported because that's never been part of the job description for people working in those areas.

It's the same kind of pressure now for servicers, too. There's so much economic and political pressure to have high volume and get these things off the books quickly. Anytime you have that pressure to turn things quickly, that increases the risk that fraud is going to go undiscovered.

MT: *How do you differentiate between catching fraud and a decline in people attempting it?*

FULMER: Part of the reason we're seeing a decline in fraud is because originators are doing a good job of putting up roadblocks. During the boom, the gravy train was real estate. You had all kinds of people who didn't know the rules, people who were taking advantage of the fact that there was so much volume and so much pressure to produce, produce, produce. Now, a lot of those people have washed out and to some extent, the quality of people involved is better.

But having said that, one of the things we see and that our clients complain about is a rise in the people within the industry committing fraud.

During the boom there were so many outsiders, all those get rich quick gurus with their investment clubs. Now, what we see more often are real estate agents who are at the heart of a short sale flopping network. One of the things that we are also starting to see again are settlement agents misappropriating funds. They're not distributing money to the borrowers like they're supposed to; they're just pocketing it.

MT: *What about on a local and regional level? Are the areas that have emerged as hotbeds for fraud still the places where more activity occurs?*

FULMER: Generally speaking, yes—California, Nevada, Arizona, Florida, Georgia. And actually Colorado is up there pretty high right now. If you look at the heat map, Denver is always in a pretty elevated space, along with Chicago, Detroit, northeast Ohio and around the metro Washington, D.C., area.

One of the things that's important to recognize is that we were flagging those as high-risk states back in 2005. Now, when you look at the repurchases and the inquiries that are associated with repurchase activity and with mortgage insurance rescission activity, they're discovering wow, there really was a lot of fraud in those areas.

There are a couple things that explain why we still see that. I frequently talk about the persistent of fraud. There is something about when a property gets caught up in fraud, especially if it involves valuation issues—which it frequently does because otherwise, how else are you going to make a profit?

Those properties tend to cycle in and out of fraud. I have some examples from Atlanta because that's the market that I'm most familiar with and you go back over a 10-year period and one property was flipped and foreclosed six times in 10 years. Once fraud gets a toehold in an area, it gets very difficult to eradicate.

There is a very clear association with underwater borrowers and foreclosures. When you really dig back into it, you see that it really was fraud because these are the people who were misrepresenting income or the areas where income was being misrepresented because people couldn't afford to buy the house.

The sad thing about when mortgage fraud goes unchecked, it has a contagion effect. If a house worth $100,000 gets flipped up to $200,000, that value goes into the appraiser's reference materials, it goes into the tax digest and the MLS listings, even people who come into the neighborhood who are legitimate actors. It contaminates the public record and it allows the whole market to ratchet up.

It's this horrible, vicious cycle and ultimately what happens is it gets to the point where people can't afford to buy the house and the only way to get the mortgage is to lie about their income. And even people who can afford it are paying a premium because of fraud.

MT: *How has the use of technology evolved in the fight against mortgage fraud?*

FULMER: The fraudsters have always used technology to their advantage, whether by finding people online to be straw buyers or fabricating documents.

Technology is a double-edge sword. Clearly, technology has to be part of the solution for several reasons. Technology allows fraudsters to make absolutely picture perfect forgeries. When you look at a document, you don't see what you saw in the old days, the Wite-Out or the letters squeezed in because somebody is typing over a bank statement to add a zero to the balance. You get documents that you absolutely cannot tell are forgeries.

Technology is a way for lenders to very efficiently and quickly assess the voracity of the information that it contains. You go beyond the look and into the actual substance of the documents.

MT: *What are some examples of going beyond the look of documents?*

FULMER: Say that somebody has a verification of rent document and says they live in a house and pay a certain amount in rent per month. Technology allows you to very quickly find out whether or not that applicant actually lives at that property. Or find out if that property is actually owned by his parents and he lives in the basement and isn't paying rent.

Income is another one. Somebody says, "Here's my W-2. I'm a bus driver and I make $120,000 a year." Technology lets lenders find out that bus drivers only make $60,000 a year, so it's not likely he's making a true statement.

It's pretty easy to fabricate or acquire fake Social Security cards. We had a case where the FraudGuard System flagged a borrower as having a Social Security number that had never been issued by the Social Security Administration. We got a call from the loan officer and he said, "This can't be right because I'm looking at the card right now."

MT: *Are there other ways that technology impacts mortgage fraud?*

FULMER: The fraudsters act like a very malevolent octopus. There's a head and a bunch of arms that carry out the various functions of the scheme. There's always a team of people who are working in a very well coordinated fashion.

The industry has always been an octopus with a bunch of arms that aren't connected to a central head. Everybody's in a silo. Especially when you're talking about institutionalized fraud, where you have large wings that are doing multiple transactions and are doing hundreds of millions of dollars worth of damage. You have to be able to look across all the silos, reach through the fog and connect all the dots. And technology is the only way to do it.

That's why Interthinx developed the Flex system, which acts like an electronic consortium. When an application comes in, a person in one bank doesn't know whether the borrower has submitted five other owner-occupied mortgage applications in the last two months.

The only way you'd know that is if you talked to the other bankers, but you can't do that because there are antitrust and privacy issues.

But when you have a database like we do, you can scan across all of the inventory. We can't identify the individual banks, but we can tell them that there are other applications in the system for a particular borrower that are for owner-occupied loans over a specific time period.

Technology helps you break out of the silos and help identify the rings and the repeat offenders to find those large schemes because it helps you connect the dots.

There were a lot of people—including some people who work for very large fraud prevention and detection vendors—who said, "We don't need to worry about fraud for housing because they're just people who are stretching and they always pay. They're just trying to get into a house, and we can safely ignore that."

The perception was that these were one-off situations. If you look at them as one-offs, they're not harmful. But the problem is that if you look at them at the aggregate level, it shows that there are a lot of them and it adds up. The subprime mortgage meltdown shows what happens in the aggregate.

SPOTLIGHT ON **ANN FULMER**

Ann Fulmer is vice president of industry relations at tech vendor Interthinx. As a lawyer, she has represented lenders in mortgage fraud cases and also served as an assistant district attorney and private detective investigating and prosecuting mortgage fraud. She frequently trains members of law enforcement agencies, including the FBI and Secret Service, on how to detect and prevent fraud.

MT: *Why is short sale flopping so dangerous?*

FULMER: There are a lot of people who don't understand why short sale flopping is a problem. Isn't it the American way to buy low and sell high? The problem is when you're flopping, or reducing the price, the bank is leaving money on the table. Banks have protections for that. They have mortgage insurance, repurchase demands and other ways they can protect themselves. But what's really happening with flopping is the fraudsters are creating excess losses.

Now days, especially in the current short sales being negotiated today, the vast majority of those excess losses are being borne by U.S. taxpayers because it's either FHA insured or it's going through the GSEs. Because of the conservatorship, the losses to the GSEs are coming directly out of taxpayer funds.

That's an important distinction because before, the losses were being borne by the industry. Now it's being borne by you, me, our kids, our grandkids and maybe even our great-grandkids.

MT: *What is the right balance of technology and human touch in fraud detection and prevention?*

FULMER: Technology alone is not going to solve the problem. Technology can identify where the problems are and what the issues are. But you still need to have human intel and you need to have underwriters who are trained and understand what the red flags are. Underwriters need to be able to look at the totality of the file and say, "Does this make sense?"

Technology is a very powerful tool that lets trained people understand where to look and what the issues are to really dig down and ask the right questions.

We always say time, training and tools. If you're in an environment with a quota, you have to do so many loans a day, that doesn't necessarily give you the time you need to really understand what's happening in that file.

For example, an average loan file has 200 pages of documents. One of the things technology can't show you that a trained underwriter will find is if the signatures are consistent from document to document. Technology won't spot that, but a trained underwriter should.

MT: *Do lenders have a perception that the effort and expense of pre-closing QC and post-closing audits on 100% of loan portfolios is too high?*

FULMER: Audits are too late. You've got to stop this stuff before the money goes out the door. But that is the eternal question, how do you strike that balance? It's the internal conflict that we face between the competing interests of sales and safety. Historically it's been hard to establish the return on investment with prevention.

When I testified for the Financial Crisis Inquiry Commission, we did an analysis of loans that were originated from 2005 to 2007. The rate of confirmed fraud in those loans was 13%. Most conservatively, if you add up all the numbers, it was a trillion dollars in direct losses due to loan quality.

MT: *But any one small lender is only a sliver of that trillion dollars. And there's a perception that it's simply too cost prohibitive for those lenders. How does the industry overcome this challenge?*

FULMER: As the technology has evolved, it has gotten more powerful and the prices are coming down. It's not where it used to be in terms of price, and it is more affordable.

The way lenders should deal with it is with samples. You pull a certain amount of production or use threshold criteria for what kinds of loans you're going to look at. But part of the problem is you have to be really careful about how you pick that sample. We saw this during the boom, and it's part of the reason the ratings were so far off and why the due diligence returns were off. You have to be aware of what the schemes are.

During the boom, I heard lender after lender tell me they run a 10% sample of their loan volumes through fraud detection reviews. But they'd say we don't need to look at loans where the borrower is putting 20% down.

The problem was people weren't putting 20% down. In actuality, they were structuring the transaction to make it look like they were putting 20%.

But if you structure it right, sampling can be an effective, efficient and cost-effective way to deal with the conundrum that a lender doesn't have a lot of money to spend. But they have to be very rigorous in how they conduct the sampling.

MT: *What are some of the new ways fraudsters are using technology to commit their crimes?*

FULMER: They're very adept at social media. They have clubs you can join. Sometimes we join these groups when we see solicitations to keep an eye on how the schemes are evolving and what the techniques and tools are.

The problem with the Internet is that there's so much information out there. But you don't know the quality of the source, especially when it comes to real estate and real estate investments.

Craigslist is a tool that is frequently used to hook people up when they need to get fake documents. You still have novelty paycheck websites and novelty bank statement websites where they have a list of the banks that they'll create account statements, with the full logo of the bank and whatever amount of money you want.

They know how to use the search engines and search engine optimization to boost returns to their websites because they need the pawns in the game. They need the people to come in and give them their financial identifiers or sign on the dotted line.

You think you're going to be a real estate investor, but you're really acting as a straw buyer for whoever's organizing it.

MT: *When the industry and law enforcement improve fraud detection, how do you differentiate between an increase in actual fraud and better identification of the same level of fraud?*

FULMER: What we report in our Mortgage Fraud Risk Index is based on the applications we reviewed during the reporting period, current statistics. We've always reported on the levels of risk and fraud going on in the here and now.

But when you look at FinCen and the FBI, the vast majority of cases they report on are based on suspicious activity reports of loans that were originated two-to-five years ago.

The incidents of fraud are being reported now because of the rescissions and the repurchase activity. When I look at what we were reporting in terms of geographies and fraud rates back then, this all just confirms what we said. It's a big I told you so.

As we are unfolding and working through the debris in this horrible train wreck that we're all in the middle of, it's showing that we were right. We were right about the geographies, we were right about the levels of fraud and the epidemic nature of it.

Suspicious activity reports are going up because we are getting better. On FinCen's sample of suspicious activity reports that involve current activity, the loans that did not close, I wish they would tell the industry, here are the geographies you should look out for, here are the mechanics of the scheme. The point is to provide the industry with actionable intelligence.

We are increasing the robustness of our analytics so instead of just reporting on the type-specific fraud risks like income, employment, occupancy, collateral valuation and identity, we can now profile based on loan characteristics like debt-to-income, loan-to-value, the appraised amount, the loan amount, the FICO score. We can really nail it down, which gives lenders actionable intelligence.

MT: *What is your perception of the priority law enforcement puts on pursuing mortgage fraud?*

FULMER: The federal Fraud Enforcement and Recovery Act of 2009 established the federal law enforcement agencies trying to focus on mortgage fraud and as a result, there have been task forces set up.

We have seen a lot of interest from the Secret Service, for example. They are very interested in going after mortgage fraud. I'll be going to their first-ever training session in August because they're saying we want to get involved in this.

The FHFA Office of Inspector General recognizes that short sale flopping in particular is a direct threat to the GSEs and one of the FHFA's mandates of the conservatorship is to conserve resources. They're starting to build industry bridges to help them shut down some of these rings because that money is coming out of U.S. taxpayers' pockets.

The FBI on the other hand, has so many cases, they don't know what to do. There are only so many agents and they have a much broader mission that goes beyond mortgage fraud. They're pretty much saturated.

When you look at the state level, the recession and housing collapse has had a tremendously negative impact on local budgets. Local law enforcement agencies tend to be, and rightly so, more concerned about public safety crime, the blood and guts crimes. They've never really had the resources to go after mortgage fraud.

One of the biggest impediments beyond that is the subpoena power of state law enforcement agencies is limited. They don't have the ability to go across state lines and subpoena records. You can ask for records, but if they don't want to give it to you, you can't force them to.

That restricts the number of cases they do take, even if they have the training and resources to do it. You have to do stings to catch them in the act of stealing money. But even then, you can't compel the victims to cooperate. MT

AVOIDING THE GFE TRAP

Technology can help lenders avoid getting caught curing RESPA violations.

It's been nearly 20 months since the Department of Housing and Urban Development implemented new policies for the Real Estate Settlement Procedures Act, rules that included new versions of the Good Faith Estimate and HUD-1 disclosure documents.

While the technology and automation exists to help mortgage lenders avoid GFE/HUD-1-related RESPA violations, industry participants say that even now, many lenders are still relying on manual processes—or no process at all—and suffer the consequences of paying cure violations to make up the difference of underestimated underwriting and closing costs.

Meanwhile, technologists realize there is still work to be done to optimize the software and processes to help lenders maintain compliance.

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By Austin Kilgore

GFE Trap

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After the RESPA changes were announced, instead of working to implement them, industry groups spent months fighting them, ultimately with little effect. When the new policies took effect Jan. 1, 2010, HUD went easy on lenders in the opening months, with lax enforcement during the adjustment period.

The new GFE is intended to help borrowers comparison shop for settlement services and get the best deal on their loans. The new HUD-1 is designed so a borrower can compare the final loan costs to the estimates on the GFE. The estimate of some costs, like credit reports and appraisal costs, must remain within a 10% tolerance of the actual cost on the HUD-1. Others, like transfer taxes and origination charges, are zero tolerance fees and can't vary. at all.

"Suffice to say, it's enough for lenders to take notice because that comes off their bottom line. It's a liability that they were not subject to before the rules and regulations."
Andy Crisenbery, Vice President, eLynx

The effort to resist change is symptomatic of a deeper attitude that exists among lenders, said Brenda Clem, a mortgage technology consultant who previously held positions at Fifth Third Bank and Equifax. Historically, many mortgage lenders have felt they needed to underestimate settlement costs in order to remain competitive among lenders. The attitude was everyone was doing it, and if a lender didn't, they'd lose business.

"It was prevalent because everyone was comparing closing costs. You could have a borrower leave you and walk across the street because your competitor's costs are $250 and yours are $450," Clem said. "And then the poor guy got to the closing table and the costs aren't $250 at all, he winds up paying $780. Is he going to walk then?

"Most people, if you can get them to the closing table, are not going to walk," she added. "They'll mumble and grumble and moan and write you hate mail, but they'll probably still go through with the transaction if they've got the money."

"What they were really worried about was the bait and switch, where lenders come in with really low numbers to dissuade a borrower from shopping and then at closing, all these charges are added on," said Jeff Schurman, executive director of the Title and Appraisal Vendor Management Association, a trade group for real estate settlement services transaction and vendor management industries based in Wexford, Pa.

But between changing old sentiments toward settlement cost estimates and implementing new processes that put a premium on accuracy, it's been a difficult shift.

"This is a bigger challenge than anybody actually realized," said Jan Clark, a vice president at Ernst Information Services, an Albany, N.Y.-based aggregator of land recording fees, taxes and settlement costs. "Some of the larger lenders we saw jumped on the bandwagon quickly and have amazing solutions in place. Others are just now getting started."

Andy Crisenbery, vice president of professional services at Cincinnati-based eLynx, agrees.

"It doesn't seem like it would be rocket science, but the operational processes that lenders have baked into the way they do business have been around forever, both from an operational and supporting technical standpoint," he said. "It's a pretty big deal for many of them to change the way they're doing business."

Crisenbery's company provides a number of origination and secondary market document management and data collaboration technologies, including a settlement agent management platform and an electronic document tool for completing HUD-1 disclosures.

Each time a fee on the HUD-1 exceeds the RESPA tolerance, or if a lender fails to disclose it on the GFE, the borrower has to pay more than expected at closing. To deter this, RESPA regulations prescribe lenders reimburse those excesses.

The magnitude of the problem can vary by the lender's origination volume and the variance in the GFE and HUD-1 disclosures. Crisenbery said he knows of one lender that paid more than $100,000 to cure an entire month's worth of HUD-1 violations.

"Suffice to say, it's enough for lenders to take notice because that comes off their bottom line. It's a liability that they were not subject to before the rules and regulations," he said. "It could be tens of thousands of dollars on an individual loan depending on how severe the penalty is."

Facing the prospects of millions of dollars in fees in a single year, a lender can quickly justify the expense of technology to automate accurate GFE disclosures. But implementing the technology goes beyond cutting a check. Processes have to be address and modified to help lenders and their title agents communicate better and collaborate earlier before all the parties come together at the closing table.

The fundamental challenge in creating a RESPA-tolerant GFE and HUD-1 is that loan officers complete the GFE, while title agents are responsible for completing the HUD-1, two parties that haven't typically communicated when the borrower first fills out a mortgage application, Schurman said.

Since Ernst first began publishing its database in 1989, 95% of its users were settlement industry participants, said Greg Teal, Ernst's president and CEO.

But that's changed since the RESPA changes took effect.

"When RESPA came along and declared that you had to have the transfer taxes and recording fees within a tolerance, now all of a sudden, the lenders needed it on the front end as well as the back so they could be accurate," Teal said. "The difficulty over the next five to six years is going to be having the two talk to each other so you can do audits of what came in on the front end and what was recorded at closing."

This becomes more challenging at large lenders, where much of the underwriting is done at centralized locations that could be as close as a few states away, or even on the other side of the world. While many national title companies have standard pricing structures, Clark said the local title agents don't always follow those guidelines.

"You have title companies that have had national title rates and you have local title agents. The title companies have had the challenge of trying to rein in the local title agent to get them compliant and then be able to provide a standardized set of fees across the board for folks," Clark said. "They've had their standard national rates but they've hadn't had all the local rates automated into a database. It works great if you know whom to call, but if you don't know whom to call, then you have a problem."

One way that lenders are handling the disconnect between loan officer and title agent is to overestimate the cost estimates on the GFE.

> "Everybody's worried about being competitive, and right now what they're doing is quoting as high as they can just to be safe."
> **Jan Clark,** Vice President, Ernst Publishing

"Everybody's worried about being competitive, and right now what they're doing is quoting as high as they can just to be safe," Clark said. "A lot of people estimate the fees high knowing that if they estimate high, at least they're RESPA compliant and the borrower ends up whole at the closing table."

So long as the estimates aren't so low that they exceed the tolerances set by RESPA, lenders can maintain compliance and the borrower doesn't have to pay more at closing.

"If you're a salesperson and you think you're going to get $1 million in gross sales, so you sandbag and say you're going to get $750,000. Then you get your $1 million and everybody's happy," Schurman said.

"But it's in reverse, if they come in too low on the GFE, and it turns out to be higher, then all hell breaks loose," he continued. "So the motivation is to overestimate the costs."

Schurman said that the overestimating strategy addresses the most important reason he believes regulators changed the RESPA requirements—borrowers being lured into a mortgage with low GFE fees, only to find that the costs are much higher when they go to close their loans.

"We'll take the bait-and-switch off the table, we'll give our best estimate, and we'll pad it somewhat if we're uncertain," Schurman said. "Because what's the worst that can happen if we pad it and say up front that it's going to be $400 and it turns out on the HUD-1 it's only $350? The borrower is only paying $350."

But just like before the RESPA changes, borrowers can still shop for the best loan and settlement services prices, a task made easier with the standardized GFE. And technology providers believe that overestimating the GFE fees puts lenders at a competitive disadvantage against a lender with a comprehensive technology strategy to generate lower, but accurate, fee estimates and GFE disclosures.

"It will definitely give you an advantage on the sales front," Teal said.

And the strategy goes beyond internal technology capabilities. "It would take some coordination between the lender and their title agent," Schurman said. "One option would be when the lender is filling out the GFE, to contact the title agent in the local area and ask what fees need to be included or use a fee calculator from the title agent to get some direction. If you could put technology behind it, that would be even better."

Starts with the Data

Accurate GFE disclosures make lenders' pricing more competitive. Any technology strategy to address settlement costs has to start with a robust database of fees for vendor services and taxes.

Companies like Ernst and La Jolla, Calif.-based ClosingCorp maintain databases of fees and tax rates for the approximately 3,700 taxing jurisdictions in the United States.

"I can't tell you how complicated those pieces of information can be," said Paul Mass, president of ClosingCorp, whose products include the SmartGFE.com and Closing.com websites and the SmartClosing online mortgage cost calculator for consumers.

"Just depending on the state and county, the law itself can be arcane," Mass continued. "It can depend whether or not you're a first-time homebuyer. The facts of each situation can affect every tax. The number of pages in a document can affect the recording fee."

Clark said that in 2009, Ernst tracked nearly 10,000 changes to recording fees and taxes that impacted its database and another 8,500 changes in 2010. Both years, approximately 87% of the changes impacted the cost of fees. In 2011, Clark said the Ernst is on pace to track 10,000 new changes.

"The recorder's offices are low on income now because the refi tax boom is over with. Increasing recording fees and taxes is a great way of bringing additional money in without having to post a major tax change," Clark said.

Many loan origination systems include custom GFE generation tools, as well as integrations with third party document preparation vendors who have their own offerings. Lenders can also benefit from LOS integrations with title agents' technology platforms.

"But there's a whole bunch of settlement systems out there so that means there are many points of integration for a lender to support that across the board," Crisenbery said. "And that's not taking into consideration the settlement agent community that has one-offs or is not highly automated and doesn't have access to one of the leading settlement systems."

That's where systems like eLynx's come into play, facilitating the communication between LOS and title agent system.

"You have a waste of time in the origination space due to incomplete applications and missing documentation and then you've got to squeeze between underwriting, closing, and funding," Clem said. "All of that time gets compressed and that's really where you need to make sure all the fees, data accuracy is correct. That should go from the crunch point to earlier in the process, instead of during the last 10 days where we're still running into problems today."

To ultimately avoid HUD-1 RESPA violations, the eLynx software adds a step in the origination process before closing to make sure the two disclosures are accurate within allowed tolerances.

"Before the closing takes place, before the settlement agent even has access to the closing package itself, it requires the lender and the settlement agent to reconcile all of the line items on the HUD for which they have thresholds," Crisenbery said.

"One option would be when the lender is filling out the GFE, to contact the title agent in the local area and ask what fees need to be included or use a fee calculator from the title agent to get some direction. If you could put technology behind it, that would be even better."
Jeff Schurman, Executive Director, TAVMA

"And a lot of these places can do it based on a county or city council meeting. They can change overnight. It's a constant moving target."

Incorporating the fee data into the GFE generation process calls for additional technology and a standardized process for lenders to communicate with title agents.

"It's really migrating more from shoveling documents back and forth and faxing copies of HUD statements," Crisenbery said, "to really trying to rely upon the data that the lender initially generates with the applicants and feeding that through directly to the settlement systems being used to facilitate the closing all along the process."

"We're leveraging the network we established on our closing network and are facilitating collecting the right data from the lenders when we receive their closing packages and provide systematic updates to the relevant settlement systems," Crisenbery added. "So there's no rekeying of data and that it feeds seamlessly in and makes sure we have the business rules defined in there so the reconciliation of data between the lender and settlement system meets the applicable thresholds and if it does not, provides notification back and forth."

Other LOS tools let lenders run checks to reconcile the GFE with a draft HUD-1 to avoid any surprises at the closing table. Pushing that check earlier in the process puts less strain on the closing process.

Challenges Remain

Lenders already have the capability to produce accurate GFEs, they just don't have the right processes in place to use data they're already collecting to populate the forms, Crisenbery said. And while lenders have the relevant data, they don't have a standard way to analyze it, particularly in larger organizations.

"I think part of what we've seen is the banks normally have legacy systems," Teal said. "A lot of banks have merged and come together and they have several systems in place that they have to integrate. You've got to really bite the bullet and find a way to feed this information throughout your entire organization."

Even with a consistent LOS throughout a lender's operation, problems can still come up. In March, Calyx Software had to release a patch to fix a glitch in its Point LOS that was causing some entries on the GFE to disappear. While Calyx quickly moved to resolve the issue, lenders reporting paying thousands of dollars in HUD-1 cure violations before the problem was identified and fixed.

Other RESPA technology issues are more widespread, like the lack of a common data standard for XML file formats for the GFE and HUD-1, Crisenbery said.

"From an industry perspective, they're still coming to grips with a definition of a data structure specifically supporting the HUD," he said. "When you look at it from a lender's perspective, they have all of their loan data in a variety of repositories, loan origination or loan management systems, vendor management systems and they have to facilitate a way of introducing that data into the settlement systems that the closing agents are using in a way that's manageable—something they've never had to do before."

The Mortgage Industry Standards Maintenance Organization, the volunteer group of industry participants that works to set common XML standards for mortgage e-docs, doesn't have a standard for the new HUD-1.

But the overhaul of MISMO's standards, including the May release of the Version 3.1 Reference Model, will make it easier for the volunteer workgroups to create a version of the HUD-1 that meets MISMO's SMART Doc specifications. In July, MISMO called on volunteers from MISMO's origination, e-mortgage, and title workgroups to help develop the HUD-1 SMART Doc.

Until MISMO's work is done, "the technology is lacking really with a clear definition of what that data set needs to reflect, as well as the ability for the settlement systems to consume that data directly," Crisenbery said. He added that eLynx had to develop its own XML parameters to facilitate its platform's communication with LOS and settlement systems. It's built with MISMO standards as a guide, and Crisenbery said eLynx will support the MISMO HUD-1 once the spec is finalized.

Another development that will impact RESPA compliance is the Uniform Mortgage Data Program, the initiative for the government-sponsored enterprises to begin collecting full electronic appraisal reports and a new electronic loan file.

Crisenbery said the new requirements of the UMDP's Uniform Loan Delivery Dataset will give Fannie Mae and Freddie Mac access to underwriting data.

"You're not only talking about the settlement agent community for HUD reconciliation, you're also talking about the GSE investor community and their loan quality initiatives," he said.

Clem notes a similar impact on the appraisal requirements of the UMDP. "Now that you have to electronically deliver the appraisal, the appraisal has property taxes as a field of data and that's getting ingested into the delivery file."

Schurman said RESPA compliance shouldn't be that difficult.

"It seems to me that's not only reasonable, but also doable from the lender's perspective," he said. But he also questions whether many borrowers are using the new GFE to shop for settlement services.

"If the borrower doesn't shop, then it's kind of moot," he said. "If you overestimate the cost by 10% to 20% and you have the certain fees that you can't change, and the borrower doesn't shop around, then it's just a mathematics exercise at that point."

"But if you're going to stay in operation with the lights on, they're forcing you to drink from the firehouse and change your procedures."

Brenda Clem
Mortgage and Technology Consultant

"So the appraisal and title commitments can now be verified by the underwriter during the credit decision and the closer as the package is being prepared," she said.

Getting On Board

Clem predicts the lenders still dragging their feet when it comes to implementing new processes and technology will ultimately pay a hefty toll greater than even the biggest HUD-1 cure violations.

"There are people who still operate under that old school mentality of this is how we've always done it," Clem said. "But if you're going to stay in operation with the lights on, they're forcing you to drink from the firehouse and change your procedures. It's not just a nice to have anymore. You have to get on board with these new procedures or you won't be in business because you won't be able to sell your loans."

But padding fee estimates to avoid violations may cost lenders business if their competitors are using technology to provide more accurate and competitively priced GFEs.

"The market decides it. If the borrower says you're too high, see you later," Schurman said. "That's completely within their right. It would be an incentive for the lender to be as close as possible in the fees."

Clark predicts that the technology to help lenders and title agents communicate and provide accurate GFEs will only continue to improve and garner widespread adoption.

"What we're seeing from lenders is the amount of people who are converting to XML solutions has definitely grown since RESPA," Clark said. "Looking at technology, lenders are a lot further along than they were, but they still have quite a ways to go." MT

Shopping & Selling REO

Servicers find the Internet a key tool in foreclosure asset disposal.

When Fred Melgaard, CEO of Newport Beach, Calif.-based DRI Management Systems, wanted to buy a condo, he searched for and purchased it totally online, sight unseen. He did it through Seattle-based Redfin.com, which bills itself as the real estate industry's "first online brokerage for buying and selling homes, half Century 21, half E-Trade." Redfin, founded by technologists and financed by the first venture capital firm to back Amazon.com, aims to realign the real estate transaction in the consumer's favor by offering better data, assessing agent performance and cheaper commissions.

By Scott Kersnar

Not merely an Internet search site, Redfin manages the entire transaction online, except when the consumer asks for face-to-face contact with a licensed agent.

"I think everyone can agree that mortgage technology has needed a facelift for a long time."

Cheryl Lang, president and CEO, Integrated Mortgage Solutions

Melgaard was so impressed with his condo-shopping experience that DRI is now pursuing a partner relationship with Redfin to manage the disposal of real estate owned properties.

The health of the American economy is inextricably tied to the wellness of the real estate market—and disposing of REO inventory is a key factor to bringing back vibrant home sale prices. Meanwhile, according to Equifax, first-mortgage REO rates are still rising, despite lender efforts to sell properties via short sales and foreclosure auctions. RealtyTrac also predicts that REO inventories will remain high, with an average discount of 36% on REO sales.

John Vella, COO of Los Angeles-based Equator, confirms that dreary outlook. "Most sales are taking place in the worst markets, so therefore a sale can be 40% below market or even more," he said.

"And we are expecting a slowdown in sales. Interest rates are low, so some people are buying. But some people are taking a wait-and-see attitude," Vella continued. "We are expecting more inventory to come on the market."

Obviously, lenders and servicers generally lacked the tools, and perhaps the will, to tackle the REO mess proactively. "I think everyone can agree that mortgage technology has needed a facelift for a long time," said Cheryl Lang, president and CEO of Houston-based collateral protection firm Integrated Mortgage Solutions.

To prevent the REO logjam from getting worse, she said technology has to play a key role. "Information is key and technology enables handling it cheaper, faster and more concisely," Lang said.

"AVMs with inexpensive BPOs instead of a full appraisal are an example. And I think we are looking at more online estimating of damage." She added social media will come more into play, "as that information is pushed out on Facebook, Twitter and so on. Realtors are using those tools right now. Virtual tours really help with REO sales. We love iPads for taking a virtual tour through the property."

On the other hand, Lang said, "mortgage companies are being asked to provide more information, more transparency in their loss mitigation efforts." She said IMS stresses the need for mortgage companies to give potential real estate investors concise information and "to keep the listing price very tight. We are always looking for ways to give our customers the best possible outcome for their assets, preserving and selling them. We know that time is of the essence and that the longer it takes, the greater the losses."

Responding to mortgage industry concerns, technology firms in droves are joining the race to manage and dispose of lender-held properties. Though many are new players, many others have been in the REO disposal space for a long time. Most vendors stress that their systems make it easy for lending institutions to ramp up REO sales quickly by streamlining property valuation and other processes, improving coordination between all the players and simplifying training of new personnel.

In October 2010, former bankers launched Nokesville, Va.-based RileyREO as a low-cost, no-commission direct conduit for banks to give them greater control in disposing of REO.

The website provides participating banks with detailed reports on properties being viewed and requests for additional information.

The RileyREO.com website went through development and refinement over the previous two years as the founders concentrated on expanding their users, co-founder Mark Riley told *Mortgage Technology*. He said the website, which charges no registration fees, looks to establish an advertising revenue stream once it gains a critical mass of traffic by helping banks speed REO sales.

Many REO technology providers focus on the asset manager. One example is Lake Forest, Calif.-based Res.Net, founded in 2003. With seven portals for servicers, agents, vendors and consumers and 140 banks using its system, Res.Net says its REO portal's robust data elements, reporting capacity, user-configurable administration and intuitive dashboard design give asset managers outstanding ease of use. Like RileyREO, Res.Net touts its linked portals as creating a community of business users, buyers and sellers that optimizes communication and transactions.

A seasoned tool for REO management is the REO Maestro software, released in 2001, which enables managing and automating the entire property marketing and sales life cycle, from taking occupancy of the property to closing the ultimate sale. The software's Composer feature enables setting up task templates for each client and vendor. The system is linked to QuickBooks and Outlook to ease expense handling and communication. Property listings generated with REO Maestro can be easily uploaded to a website.

It is a truism of REO disposal that rehabilitated properties sell at higher prices to would-be owner-occupants, as many investors look to "fluff and turn" run-down properties themselves.

In 2009 Field Asset Services of Austin, Texas, launched a REoMODELING service that includes analysis, recommendations and estimates for the most effective rehabilitation program for a property. With a network of 13,000 contractors and 600 dedicated FAS employees, the company boasts its services can reduce the time to a closed REO sale by 68%.

For more than two decades, Westminster, Colo.-based BrokerPriceOpinion.com has provided real estate valuation services through a network of 65,000 real estate agents and appraisers. The company has kept itself on the leading edge of technology and used quality checks, client-specific valuation criteria and third-party data integrations to deliver standards-based BPOs accurate enough to rep and warrant.

"What we stress is ease of use, understandability. There's a lot of high-end programming out there now, but on a lot of sites it's difficult for Web visitors to navigate them."

Tony Isbell, CEO, RealtyBid

The Internet to the Rescue?

Front and center in any strategy for accelerating REO disposal is the Internet. It's the first place most home seekers and real estate investors go, as automatically as they go to eBay and Craigslist to look for pre-owned cars and power tools.

Leading the charge in Web-based REO sales is the Department of Housing and Urban Development, which was a pioneer in using the Internet to market and sell foreclosed properties previously backed by Federal Housing Administration-insured mortgages. In the late 1990s, HUD became the first mover in using the Internet both to market REOs and to handle sales transactions completely online, though paper reappears when HUD processes sales, and the agency does not yet accept electronic signatures.

In 2006, HUD contracted with Santa Barbara, Calif.-based Yardi Systems to replace its mainframe computer with Web-based software, enabling HUD personnel and contractors to access integrated property management data and track appraisals via the Internet.

At the time, Yardi had already forged a worldwide reputation for providing leading-edge asset and property management software to companies such as Cushman & Wakefield and Deloitte.

The volume of HUD's online sales mirrors fluctuations in the economy. In 1999, HUD sold 62,000 properties online. In 2000 that rose to 84,000, fell to 49,000 in 2007 and rose to 87,000 by 2010.

HUD lists REOs on an "as is" basis on HUDHomestore.com. Depending on the property's condition and the local market, HUD sells the houses at, below and sometimes above market price.

HUD's goal, whenever possible, is to make REO sales to owner-occupants, rather than investors. One advantage HUD boasts is streamlined processing for its 203(k) rehabilitation loans, making them a "perfect fit" for REO sales, a HUD spokesman told *Mortgage Technology*. Also, Fannie Mae's REO sales unit, HomePath, offers a conventional alternative to the 203(k) loan, with higher loan limits.

While HUD has the authority to sell REOs in bulk, it has never used that power to sell to investors, though HUD sometimes makes multiple sales to cities and nonprofits, notably with its "First Look" program. The initiative that lets cities, states and nonprofits participate in its Neighborhood Stabilization Program. Effective June 1, 2010, NSP grantees can purchase minimum bundles of 10 properties listed for 60 days or more. The purchase price is calculated as the appraised value minus specified discounts, with bids submitted electronically.

In addition to marketing REOs online, HUD has an Internet-based management system and uses Internet portals to get property valuation data in real time.

For servicers, HUD uses an Internet portal to send property preservation information to a contractor in Oklahoma that reviews and approves servicer preservation activities.

Right on the heels of HUD, RealtyBid.com launched in 2001 with an additional value proposition: to remove the need for buyers' agents in online real estate sales and correspondingly discount the cost of the transaction for consumers.

RealtyBid.com boasts "thousands of foreclosures, REOs and other bargain homes from the nation's largest lenders, builders and real estate brokerage firms."

For REO disposal, what is particularly attractive about the RealtyBid.com business model is its quick and efficient online bidding process.

"What differentiates us from the HUD Homestore site is that they require an agent. We allow a consumer to bid directly," said RealtyBid CEO Tony Isbell.

"What we stress is ease of use, understandability. There's a lot of high-end programming out there now, but on a lot of sites it's difficult for Web visitors to navigate them," he added. "Too many sites get caught up in ancillary revenue streams, banner ads, promoting sites other than their own to get the revenue."

Isbell said the back office process at Realtybid.com is transparent as well; bidders can know the status of their bid at any point—as well as being able to know what the competing bids are and when they change—just like with eBay.

RealtyBid.com enables two ways to make a purchase: competitive bidding via online auction and direct offers to the financial institution or other property owner, with bids presented daily.

Though RealtyBid doesn't require that bidders use an agent, he said 65% of bids on the site involve a real estate agent, as most buyers continue to seek live professional help in making a home purchase.

RealtyBid lets asset managers set up an account that enables them to input property singly when they plan to sell fewer than 10 properties a month on the website. Isbell said RealtyBid has conducted some bulk sales, and will begin handling them for Freddie Mac later this year.

Over the next decade, he predicts, the success of REO Internet sales will force the traditional real estate industry to embrace online bidding as a normal sales method that will undercut the role of the buyer's agent.

"The real estate industry as guardians of the gates on real estate data went out with Zillow," said Isbell. "However, we think the listing agent offers a valuable service in pricing and showing property. That side of the real estate industry will be around for years to come."

Picking the Right REO Disposal Strategy

Asked whether he expects Internet marketing and auctions to having a crucial impact on REO disposal to help restore the real estate market to health, Vella said, "It's a combination of things. The Internet allows the average consumer to be exposed to data to help them make decisions, to get alerts on properties and foreclosure listings. The sheer exposure allows more buyers to move quickly."

"We provide functionality the larger servicers don't yet recognize they need, like detailed repair lists, before-and-after photos and redemption stats we know the industry needs."

Fred Melgaard, CEO, DRI Management Systems

But handling REO disposal via the Internet goes beyond online auctions. Veteran REO technology vendors address a whole series of steps preceding and determining the actual manner of sale.

Back in 2005, Equator augmented its REO offer management system with nonperforming asset management capabilities, and further added loss mitigation modules in 2008. In February 2011, Equator announced the launch of its new website along with three new modules for REO segmentation, loan segmentation and invoice management "to offer a best-in-class, end-to-end default suite."

What loosens the REO logjam from the standpoint of the decision-making process by financial institutions is marshaling trusted analytics. Having a segmentation model at the head of the disposal process, said Vella, allows users to handle large volumes of REO coming down the pipe with confidence and consistency.

"Based on value, investor, property and location," he said, the segmentation model draws on the appropriate data to route the property to an appropriate disposition strategy. "The model recommends an online auction, ballroom auction or 'hold' strategy and estimates net proceeds, holding costs and timelines."

What makes the model effective is the vast amount of proprietary data Equator has sequestered. "We have handled thousands and thousands of transactions. For example, we have captured over 800,000 short sales in our database. No one else has done that. So far everything is tracking with our expectations," he told *MT*.

For its part, DRI has recently launched a broker interface that features multiple core functions and value-added tools, including offer/counter offer management. The previous desktop version of DRI limited the number of users and offers the system would accommodate. The new DRI Office, a Web-based model, accommodates unlimited offers and offerers.

DRI Office, the company's default servicing platform, provides the underpinnings to the DRI Broker module outside the firewall. Screens are similar to expedite communication between users inside and outside the firewall. The system handles the dual-track foreclosures "that may soon be regulated out of existence," said Melgaard.

When the broker accepts a listing, all subsequent tasks are enumerated as discrete workflow steps to make sure needed steps are taken in sequence. Brokers get assigned tasks and work through them in order.

"The system is integrated into the bank's process and provides asset managers with scorecards for finding and retaining good brokers," said Melgaard. "It handles communications online in real time to replace fax and phone and do away with constant interruptions."

"Brokers submit what they think is right and get a budget approved. All communications are automated into the process and turned into workflows. Nothing falls through the cracks and disappears," he said. "Brokers' monthly reports come back as data and lets you mine the data pulled from all your properties."

Melgaard added DRI is configurable enough to accommodate the "secret sauce" appetites of the larger lenders. With the new broker module as with the entire system, he said, "We provide functionality the larger servicers don't yet recognize they need, like detailed repair lists, before-and-after photos and redemption stats we know the industry needs." The DRI system also provides bulletin board warnings when the compliance picture changes.

To truly offer a broker module as a component in a fully robust default-management system, he said, it needs to incorporate 50-state licensing rules.

It needs rules governing judicial and nonjudicial proceedings, as well as borrower redemption rights. It also must have broker-watch features, invoice handling, reports for rents, tenant activity and property condition, as well as closing administration and audit features and a way to track communications. "To do all that from scratch is time-consuming and expensive," said Melgaard. MT

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Automated Rules

There are several key areas in which an automated centralized rule system creates tremendous benefits. One is loss mitigation, which is an area of huge concern in the current market.

For example, when loss mitigators work with customers to find workout options, they must evaluate a great deal of data to determine if a customer qualifies for a modification, or if he or she is best suited for a short sale or a deed in lieu.

Embedding rules in the process and managing them in a repository means all systems—like an automated work-flow that manages the step from A to B—use the same rules to assist the customer or process to the appropriate conclusion.

Also, in cash processing, when funds are processed, certain rules pertain to how money is applied to a delinquent loan, and others for current or prepaid loans.

When the rules are not followed, regulators will question why Customer A was processed differently than Customer B. This inconsistency can hurt a company from an audit and compliance perspective. It can also increase customer complaints and the costs associated with correcting mistakes. Centralized rules ensure all cash is processed according to regulatory and company guidelines.

When firms automate work processes, they can work from one set of rules that all systems follow. By utilizing a centralized rules engine, companies only have to change one set of rules when new regulations or policies are implemented in multiple processes.

Manual Rules

Many business rules don't necessarily lend themselves to automation. They are simply rules that people have to follow, and they have to be executed manually.

Whether rules are manual or automated, there is still value in a centralized repository. Therefore, any system a company uses should have the capability of expressing those rules to users. Employees are also able to manually search for key words or for certain specific rules.

> When firms automate work processes, they can work from **one set of rules that all systems follow,** rather than trying to replicate them.

For example, if someone is performing an escrow analysis, he or she needs to see all the rules that govern that particular escrow analysis and get any additional detail they need to complete the analysis. With a centralized rule system, all the data points across the analysis are searchable and link in both directions—across process and policy.

Determining Your Operational Realities

The first step to choosing a system is for managers to understand how they expect it to help their company. When talking to various vendors or consultants, companies should ask for proposals that include real-life examples that are relevant to their circumstances. The vendor or consultant should start by looking at a specific process and analyze how the company currently documents the process to determine all the rules involved. Then each rule should be examined to see how it affects the process, how many systems use it and how it varies between systems.

Companies should also examine how employees follow the rules. They might be surprised to discover that some employees have created their own system, such as the "sticky note" system. By looking at the materials employees rely on to manage rules, companies can see how centralizing rules would make tracking and following them easier, while making processes more consistent to ensure that all regulations and policies are met.

Along with creating consistency and eliminating personal judgment from the equation, a centralized rules system enables the ability to perform a "rules trace," which allows a manager to go back and see the steps that were taken in a previous transaction or process. That's an important feature if a regulatory body requires a company to prove that it followed the established process at a specific point in time.

The basic construct for the rules trace shows the flow of rules that were followed from point A to point B. It also contains all the data points used at each decision point. Lastly, it typically expresses rules as true or false.

Companies must understand the realities of establishing a centralized rules engine. Vendors or consultants can help analyze current operations and determine how the firm would benefit from this system, but they can't do all the work. The company must commit both the time and resources to develop and document its rules in a way that can be automated. This work is very exacting and can be tedious, especially since some rules aren't documented—they're in someone's head.

Another commitment is the ongoing responsibility of updating rules. Companies must carefully watch regulatory changes and update impacted rules. If a company doesn't have a rules repository, it has to change the rule in every system that applies it. With a centralized system, the rule only has to be changed once.

Creating a Central Future

Whether a company goes out and purchases a product or builds its own, the benefit of centralizing rules is that everyone follows and implements the rules to ensure regulations and policies are consistently and accurately met. In light of the increasing changes and regulations in the industry, a centralized rule system is the future. MT

Steve Machado is VP, mortgage servicing product strategy, at Jacksonville, Fla.-based LPS.

MORTGAGE OPPORTUNITY

By Austin Kilgore

As consumers continue to turn to the Internet to shop for virtually everything, online home hunting and property search destinations are big business. These Web properties have their strengths and weaknesses, and their owners are engaged in a battle to delineate the perceptions and realities that differentiate these portals from one another.

This fierce competition continues to transform how consumers shop for homes, not to mention being a spark for innovation. Real estate listing websites are evolving to become full end-to-end home shopping portals; most notably with the addition of technology that lets consumers shop for mortgages and compare interest rates.

Real estate listing websites are expanding with loan rate searches to become a complete home shopping destination.

It's still a work in progress, as the leading websites work to execute their divergent strategies in pursuit of coming out on top. But the evolution of real estate websites is already impacting the mortgage industry and will likely have the same sea-changing affect that it had on real estate—creating opportunity for business growth for lenders ready to answer the door.

In the U.S. auto industry, Detroit is home to the Big Three—Chevrolet, Dodge and Ford. In the world of online real estate listing websites, the West Coast is home to its own Big Three—Move Inc., located 40 miles outside Los Angeles; Trulia, headquartered in San Francisco; and Zillow, based in Seattle—which use their national scope to dominate online home shopping.

Move, first founded as RealSelect but better known then as Homestore.com, got its start in 1996 by developing and launching its flagship portal Realtor.com, the property listing website built in collaboration with the National Association of Realtors. Its other sites include Move.com, Moving.com and NewHomeSource.com. In addition, Move also powers the listings on the real estate sections of MSN.com and AOL.com.

Move had nearly a decade-long head start before Trulia launched in 2005 and Zillow one year later, but both have caught up quickly. In addition to its flagship Zillow.com, the company also powers the for-sale property listings on Yahoo.com's real estate section. Likewise, Trulia supplements its Trulia.com with partnerships with CNNMoney.com and newspaper websites, including The Washington Post. According to NAR, the total audience for real estate listing websites was nearly 70.2 million unique visitors in June 2011.

Expansion Into Mortgage

With so many eyeballs coming to these sites, the portals needed more content beyond property listings. Zillow launched its mortgage rate search platform in 2008, looking to capitalize on what it saw as a need to provide more information about home finance online and draw a closer relationship between home shopping and mortgage shopping.

"Back then, that link between shopping and financing was not nearly as tightly as intertwined as it's becoming now," said Erin Lantz, director of the Zillow Mortgage Marketplace.

In its first year of operation, ZMM provided more than one million rate quotes. "We're a destination where we hope to educate consumers about home shopping, real estate and home financing throughout their interaction with real estate," Lantz said.

"It was important to us philosophically at Zillow Mortgage Marketplace to turn that model upside down and to let consumers be in control."

Erin Lantz, Director, Zillow Mortgage Marketplace

In January 2010, the company began charging lenders to post their rates on the site. Lenders pay a cost per-click fee to publish rates and generate leads from Zillow's search service. During the first quarter of 2011 alone, users requested nearly one million rate searches, according to Zillow's Securities and Exchange Commission disclosures. In addition, Zillow hosts more than 7,600 user-submitted reviews of mortgage professionals.

Lantz said "hundreds" of lenders, ranging from large national companies to small- to midsize lenders and brokers, advertise their rates on its portal, using third-party automated product-and-pricing engines to feed their current rates to the platform that Zillow built in-house. When a user enters parameters for a mortgage search, the ZMM makes a unique request for live pricing data from participating lenders.

"Every time a consumer makes a loan request, those rates are refreshed instantaneously," Lantz said. "It takes on average 30 seconds to receive quotes back from all the lenders and on average, our consumers receive 25 loan quotes per loan request and those are all delivered in real time."

The advertising is also a lead generation tool for lenders. But unlike many mortgage lead generation services that require consumers to give up their personal information before getting rate results back, Zillow provides users an anonymous search experience, providing the lender's contact information for borrowers to use when they are ready to engage a lender.

"It was important to us philosophically at Zillow Mortgage Marketplace to turn that model upside down and to let consumers be in control, shop anonymously in an open and transparent marketplace and then, if and when they're ready, decide which lender they want to contact," she said.

Zillow's model encourages users to provide more accurate search parameters about their specific situation and loan needs, Lantz said. While it reduces the number of leads lenders get from the advertising, the quality is greatly improved because consumers are actively pursuing the lender, rather than the lender wasting time attempting to contact a batch of potentially uninterested leads.

Lender Benefit

While a small lender or community bank can implement technology for taking applications online and offering rate quotes on their own websites, they may face trouble standing out in search engine results.

Mortgage lenders looking to expand their online channel can benefit from the captive audience of home shoppers that real estate portals cater to, which is bolstered by the portals' placement in search results.

For larger lenders, a strategy to deploy both rate and traditional online banner advertising on multiple sites creates a broad reach, while monitoring the effectiveness of each Web destination, said Gregg Larson the president and CEO of Scottsdale, Ariz.-based real estate consultancy Clareity.

"Bank of America seems to have figured out how to advertise on virtually every portal and I know those guys are very diligent, they're not just spreading money around," he said. "They're calculating the return and the number of applications they get and the number of qualified applications and what loans they end up doing."

Ron Phipps is president of NAR and previously served in other roles on NAR's leadership team. With more than 30 years of experience, he's seen his profession evolve from agents being the gatekeepers of multiple listing services to serving homebuyers' demand for a knowledgeable resource who can close deals.

Online shopping is having the same impact on the mortgage industry, but there will continue to be a need for knowledgeable loan officers and Phipps believes effective lenders will balance technology and the human touch.

"On one hand, the mortgage industry is going to a highly automated system and I think they may be foregoing business in that opportunity if they don't have people that look holistically at the customer," Phipps said.

For Move, Mortgage Stalls

Move has taken a strikingly different strategy to mortgage shopping, with a website it launched in December 2010, Mortgagematch.com. Move developed the site and partnered with a subsidiary of Houston-based nonbank lender Cornerstone Mortgage Co. that was created to underwrite and fund the loans.

Errol Samuelson, Move's chief revenue officer and president of Realtor.com, told *Mortgage Technology* in a January interview that borrowers get further into the mortgage process than with the other sites.

"We're trying to market this idea of a pajama mortgage," he said. "Where you can sit in your pajamas on a Sunday morning and literally in 10 to 15 minutes, not just get an estimate, but actually get a commitment from a lender and do the whole thing online."

Rather than offering rate advertising, Mortgagematch.com included an automated pricing engine for Cornerstone's portfolio of loan products, an online application and prequalification tool, as well as consumer-focused information and articles about mortgage-related topics. When the site returned a user's request for a rate quote, the Web page was also populated with advertising of targeted property listings from Realtor.com.

Likewise, users searching for properties on Realtor.com were inundated with ads for Mortgage Match—ads that included backlinks from Realtor.com that contributed to Mortgage Match's search engine optimization and higher placement in search results; consideration not afforded to other advertisers on Realtor.com, including Move's Realtor advertisers.

The concept seemed to gain early traction. In the first month online, Mortgagematch.com had nearly 100,000 unique visitors on the site and converted 1,000 of those hits to a consumer completing the mortgage prequalification process.

But then in early July, there was an abrupt change. Cornerstone's lending business was taken off the site. A month after the change, the site is still a shell of its former self, only providing articles, but no loan searches.

Move officials declined *Mortgage Technology*'s multiple requests for an interview and comment, as did executives at Cornerstone. Their silence makes it unclear whether Move or Cornerstone ended the relationship—though of late, Cornerstone has been embroiled in its own controversy that may have lead to its demise.

In June, Cornerstone agreed to pay $15,000 to one complainant and set up a $750,000 fund to compensate other potential victims to settle Department of Housing and Urban Development allegations that it denied loans to women who were pregnant or on maternity leave. In July, Cornerstone agreed to a consent order with the Georgia Department of Banking and pay $90,000 in penalties to resolve claims that it allowed unlicensed loan officers to originate loans.

Move spent two years developing its mortgage shopping tool and it is likely that recent events amount to a setback for Mortgage Match, not the site's permanent demise. But it's also not the first time that Move's stumbled out of the gate in its attempts to expand into online mortgage shopping, troubles that appear to both be brought on and impacted by its relationship with NAR.

In 2001, Move, at the time known as Homestore.com, and Bank of America announced a five-year, $10.5 million deal to launch Home Solutions, an end-to-end home shopping destination that combined Homestore.com property listings with B of A mortgage shopping tools. But one week later, the deal was off, and Homestore's property listings were removed from the Home Solutions site.

"It blew up and they basically took it down within a week," Larson said.

Larson, who was a Homestore consultant from 2000-2001 on a project unrelated to Realtor.com, explained that NAR was wary of Realtor.com impacting large real estate brokerages that had mortgage partnerships with lenders. "Realtor.com was not displaying mortgage advertising in any meaningful way because of the rub with larger brokers," he said. "So that's when [Homestore] sort of stepped over the line and did this big deal, and some brokers screamed and yelled and ended up dissolving that deal. It never got off the ground."

Press reports at the time suggested NAR killed the deal over a dispute about how its MLS data was being used. Reports also claim the deal was an affront to NAR, which was at the time fighting to stop the Federal Reserve from enacting rules that would allow lenders to operate real estate brokerages—a practice NAR's lobbying helped prevent with the passage of a 2009 law barring national banks from operating real estate brokerages.

Given those events, Larson said it's unusual for Move to embark on a similar strategy with Cornerstone. "The exclusive one-lender deals haven't seemed to work for a long time," he said.

Realtor.com business is governed by an operating agreement between Move and Realtors Information Network, a for-profit wholly owned subsidiary of NAR. Established in 1996, the agreement lets Move run the site and charge NAR members to advertise property listings, but also sets a number of restrictions that maintain NAR's influence over the site's operation and limits certain activities, advertisers and business lines that Move can engage in, including mortgages.

In an April 5, 2011 letter to members on NAR's other website, Realtor.org, NAR said the key provisions of the operating agreement include NAR's ownership and control of Realtor.com, that basic property listing ads are free for members and strict controls on Realtor.com advertising.

"For example, no Realtor detailed listing will ever contain a banner from a competitor," the letter, "Why Realtor.com matters to Realtors," reads. "Advertisers are limited on the amount of space they can occupy on the site at any given time."

Through its ownership of RIN, NAR controls 4% of Move common stock, the letter says. It also holds the sole share of Move's Series A preferred stock, granting it a seat on Move's board of directors.

That seat is held by Robert Goldberg, president and CEO of RIN and NAR's senior vice president of marketing, business development and commercial services. Goldberg is also a director of RealSelect, a wholly owned subsidiary of Move.

The NAR-Move partnership is a multimillion-dollar venture. NAR valued the RIN subsidiary at nearly $7.5 million in a 2010 tax filing with the Internal Revenue Service for the 2009 tax year.

In the same filing, NAR said Goldberg received approximately $703,000 in compensation for his combined work at NAR and RIN and for serving as director of three other NAR subsidiaries—making him the nonprofit's second-highest paid employee that year, behind NAR CEO Dale Stinton's $1.45 million in compensation. In an SEC filing, Move said it paid NAR $1.9 million in Realtor.com royalties and other advertising.

In September 2010, NAR and Move concluded a months-long renegotiation of the agreement. The new contract includes provisions to streamline the development of site improvements and clarifies certain areas of content requiring NAR approval. "As a result, Move anticipates it can make innovations to the Realtor.com site more rapidly to remain at the forefront of advancement in today's highly competitive and information-driven environment," a press release said.

Larson called the renegotiation "five years overdue."

> "Even Coca-Cola made a mistake on a formula."
>
> **Ron Phipps,** President, National Association of Realtors

"The operating agreement had become outmoded and there were some things in there that just didn't make sense anymore and that were still restricting Realtor.com," Larson added.

Phipps said that lifting the restrictions on Move's mortgage activities "clearly was one of the pieces that we thought made sense to try."

With the new terms in place, Phipps said NAR's restrictions won't be an impediment to Move's future plans.

"The operating agreement needed to be renegotiated in order for Move to be more dexterous and competitive," he said. "Think about it, the operating agreement was originally written 15 years ago. The market, the Internet, has changed. It better reflects that nature."

With NAR relenting on its mortgage restrictions, Move was free to launch Mortgage Match. Despite Mortgage Match's current status, NAR will remain a "strong advocate" for the site, as part of the association's first priority, ensuring "a reliable source of mortgage money," Phipps said. He called Move, NAR and Realtor.com "organic" entities that are constantly evolving and learning from their mistakes.

"Even Coca-Cola made a mistake on a formula," Phipps said. "You can't hit a home run unless you swing, but on occasion you're going to strike," he said. "What I can say with confidence is that the mistakes are that, they're mistakes. The real effectiveness of the partnership is that both of us have learned."

Other Strategies

The Zillow and Move mortgage shopping websites don't just face competition from fellow real estate listing websites, they also have to compete with other sites that only provide loan quotes, like Bankrate, Google's Comparison Ads, LendingTree and others.

Instead of dedicating resources to building a custom platform, Trulia's taken a different approach—syndicating the mortgage rates from Bankrate lender advertisers. Likewise, Yahoo, which syndicates Zillow's for-sale property listings, also syndicates its mortgage data from Informa Research Services.

In addition to publishing Bankrate rate quotes, Trulia's mortgage page includes information about the mortgage process, calculators for determining affordability, whether a borrower should refinance and the costs of renting versus buying, as well as an advice section.

"What we're trying to do is help people, not say 'use this one vendor.' Sure, Bank of America would probably give us a ton of money if we would get rid of everyone else on our site and be an exclusive advertiser, but that's not what we're trying to do," said Ken Shuman, Trulia's director of communications. "We're looking to provide people with quality information to help them with this process."

The Bankrate partnership began last year and includes a revenue sharing agreement. It ensures Trulia has a mortgage presence, but allows it to put resources on other tools. "There are lots of areas that we're focusing on that are very different what from others are doing, and that's where we're putting our innovation, our resources and R&D," Shuman said.

"It's not to build yet another mortgage marketplace, but it's really to differentiate, using social and user-generated content to give a fuller experience," he added.

One such tool is a crime statistics map that Trulia has launched for 50 counties. Users can search an area all the way down to a specific block to see crime data. Another function encourages social networking by letting users invite their real estate agent and friends to have a private group discussion about properties listed on the site.

Online mortgage shopping is a crowded space, Shuman said. "So do you go into a competitive space or do you want to build something different and new that brings value to consumers?"

Shuman said what ultimately will determine which strategy works best will be the consumer. "It's all about the user experience," he said.

But as far as where the company sees itself against other real estate portals, Shuman said the real competition is a two-horse race between Trulia and Zillow because the two are constantly chipping away at Realtor.com's dominance. While he acknowledges that Zillow has more unique visitors, he points to other metrics like time spent on the website and pages visited per user that Trulia claims are shifting in its favor.

"We really feel as if the old guard was a real estate site that was built for the industry and we look at what's different for Zillow and Trulia is that we built these for consumers," he said.

Shuman added that the Trulia's strategy to differentiate itself from Zillow is by focusing on sharing information about the home shopping process and giving users the "inside scoop" on neighborhoods through its social platform, as opposed to Zillow's focus on property values and mortgages.

"Zillow is about your house. It's about what my house is worth, it's about what my neighbor's house is worth and it's about my mortgage," Shuman said.

"Zillow has this very voyeuristic look. I know I go there every month because I get my email that says this is your home value this month," he continued. "But I click on one page and I leave. So I become a unique visitor, but I'm not an engaged visitor."

Competitive Advantage

Mortgage shopping tools will continue to play a part in the competition between online real estate portals, even for Trulia.

"We track everything pretty closely, so we know how important mortgage is to people, from the types of questions we get in our advice section, to the traffic that our mortgage tabs get, so we're always keeping a close eye on that and understanding how much of a thirst for knowledge there is in terms of quotes, price and the process," Shuman said.

Larson agrees. "It's a core revenue," he said. "The leading portals, they all have their mortgage strategy and they need the revenue." But it's not the only thing. Upping the ante is Zillow's July 20 initial public offering. Trulia remains privately held for the time being, but Zillow's joined Move among the ranks of public companies, raising nearly $70 million in its IPO. While the prospectus priced the stock at $20 per share, it soared as high as $60 on its first day of trading.

Wall Street hasn't been as kind to Move recently. Its stock closed at $1.59 on Aug. 9, the day after reporting 2Q11 net income of $1.2 million, compared to Zillow's closing price of $27.96 on the same day—a difference in market capitalization of approximately $500 million.

Zillow is rapidly adding new offerings, including separate mobile applications to search for property listings and mortgage rates. The company says mobile devices account for 20% of traffic on weekdays, which increases to 30% on weekends.

While Mortgagematch.com's status remains in limbo, Phipps said NAR is moving forward with new tools and features to make the Realtor.com experience better for its members.

Top Unique Visitors
Individual Real Estate Websites

Yahoo Real Estate	13,818,000
Realtor.com	12,418,000
Zillow	11,659,000
Trulia.com	9,143,000
AOL Real Estae	5,288,000
Homes.com	4,226,000
Coldwell Banker	2,716,000
MyNewPlace.com	1,665,000
ReMax.com	1,583,000
HomeFinder.com	1,521,000
Other:	10,117,000

Top Unique Visitors
Combined Real Estate Networks

Yahoo-ZIllow Real Estate Network	23,943,000
Realtor.com Real Estate Network	23,043,000
Move Inc. Real Estate Sites	15,283,000
Trulia Network	9,354,000
Homes.com Network	4,278,000

Source: National Association of Realtors Website Traffic Statistics, June 2011.

One tool is Realtors Property Resource, developed through a partnership with Lender Processing Services. RPR is a database of 147 million land parcels available only to NAR members that includes valuations, detailed property history and photos. In addition, the database contains information on what's owed on the property, Phipps said, including second- and third-lien mortgages.

"I smile when I think about what Realtor.com does. It's a site that publicly displays properties; it's a marketing site," he said. "When you complement that with the analytics of RPR, I think the public is really going to be excited about what an individual Realtor can do for them." MT

Legal Insight

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Also, loan closing documents must be generated that reflect loan officer compensation, along with proof that compensation is paid by only one source—the borrower or the lender.

Beyond the loan-level view, technology solutions must cost-effectively gather real time and/or historical loan officer compensation data needed to meet periodic regulatory reporting requirements, as well as generate documents in response to a specific complaint or investigation into lending practices. With a patchwork of technology solutions, lenders may not be able to conduct such forensic analysis.

Even when cobbled together systems can produce full forensic data, they are likely to require far more man-hours to compile, report and present than an enterprise system.

In short, demonstrating that your lending operation is compliant is made much easier and more thorough with an enterprise solution.

Historically, loan origination systems have been built in such a way that they are disjointed from the compliance issues related to the mortgage industry. Rarely have they been designed with compliance experts as members of the overall design team. Even today's robust rules engines and automated decisioning capabilities often do not address compliance points at the loan level.

Now that virtually every element in a mortgage business's operations can be automated and recorded, the right technology can be a superior enabler, helping lenders guard against being out of compliance now and in the future.

Regulatory reform and compliance are transforming the mortgage finance business model. Without the right technology—technology designed in partnership with compliance experts—you could end up paying a bigger price: enforcement actions and/or litigation, either of which could ultimately spell the end for your company. MT

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Tech Outlook

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Also, the trusted, verified and tamper-proof sealed data is 100% verified and validated at time of delivery. And finally, e-mortgages provide the highest level of efficient loan-level processing. This efficiency provides the opportunity to identify any remaining fraud and data/document errors at the beginning of the process, instead of after closing. The root causes can be analyzed and the issues resolved to create minimal exception processing.

The delivery of a SMART loan package significantly reduces data issues due to the multiple layers between the borrower and provider of funds. The paperless model is based on simplicity and a single platform that provides end-to-end integration. All loan data, data corrections or data updates flow back to a centralized system of record.

The daily and monthly data validation/verification processes are estimated to take significantly less time than manual processing because the data and process errors would be reduced, as well as, non-value-added activities to total activities.

The paperless mortgage and paperless mortgage process provides the industry with the opportunity to address the existing process and performance issues it faces and eliminate the inefficiencies of the paper-intensive process used to originate mortgages today.

As a result of process re-engineering and operational efficiencies, there are significant opportunities, both upstream and downstream, in the overall value chain for lenders. These opportunities can also eliminate the maintenance cost for disparate systems that are no longer needed or can be replaced by a simplified, end-to end delivery system.

This will result in substantial operational cost savings annually from the elimination of system maintenance and upgrades for proprietary systems. It also can open the door to growing a better business model that offers a variety of improvements—competitive pricing, product expansion, customer and consumer expansion, better matching of risk-return, better evaluation of complex securities and the ability to innovate. MT

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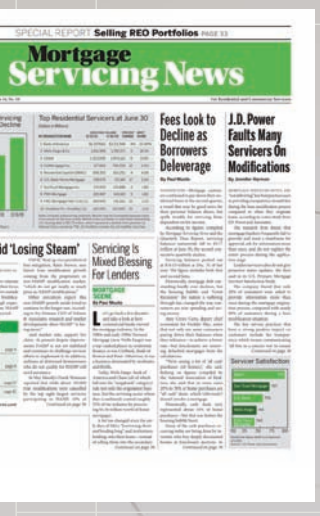

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Finalists Named for the 2011 Mortgage Technology Awards

Mortgage Technology is pleased to announce the finalists for the 2011 Mortgage Technology Awards.

The Mortgage Technology Awards have a long tradition in the mortgage finance and technology industries for recognizing innovative technology developers and users that are promoting more efficient and cost-effective lending practices. In its 12th year, the awards are among the most coveted in the industry.

As always, this year's 10 award winners will be determined by a panel comprised of *Mortgage Technology's* editorial staff.

This year's awards include two new recognitions—the Online Originator Award and the Harnessing Mobile Award. Continuing a trend that began two years ago, three awards are reserved to recognize lenders and servicers.

To be considered for an award, the companies and individuals were asked to provide information in support of the nomination. Up to three finalists were selected in each category.

The winners will be revealed at the 12th annual Mortgage Technology Awards ceremony on Oct. 9 in Chicago and published in the October edition of *Mortgage Technology*. This year's award categories are:

Lender/Servicer Awards

The **Green Lender Award** commends the use of technology to promote sustainable and environmentally conscious business practices.

The **Online Originator Award** commends a lender with a comprehensive strategy to use Web-based technologies to generate borrower leads and convert them into closed loans.

The **Servicer of the Year Award** recognizes the use of technology to optimize management of mortgage portfolios and ensures efficient communication with borrowers, investors and vendors.

Industry Awards

The **10X Award** commends a company, product or technology that's had an exponential impact on the mortgage industry.

The **Fix-It Award** recognizes technology that provides an effective solution to a specific industry problem, need or channel.

The **Harnessing Mobile Award** commends the development and implementation of mobile technology in the mortgage industry.

The **Lasting Impact Award** acknowledges an individual, group or company responsible for a technology initiative or development proven to have an enduring influence that's transformed mortgage finance.

The **Release of the Year Award** recognizes a new software, platform, alliance or initiative for the mortgage finance sector that is expected to have the broadest future impact on the mortgage industry.

The **Steve Fraser Visionary Award** is a lifetime achievement award that recognizes the accomplishments of an outstanding individual who's been a mortgage technology innovator, visionary or evangelizer.

The **Synergy Award** recognizes technology initiatives and alliances that bring about and promote the integration of software and processes to encourage increased automation, improved efficiency and broad use by the mortgage industry. MT

The 2011 Mortgage Technology Awards Finalists

Green Lender Award
- Pleasant Valley Home Mortgage
- TD Bank
- WR Starkey Mortgage

Online Originator Award
- Flagstar Bank
- Goodmortgage.com
- Quicken Loans

Servicer of the Year Award
- BSI Financial Services
- ServiceLink LoanCare Servicing

10X Award
- Aklero Risk Analytics
- Decision Ready Solutions
- Equifax

Fix-It Award
- BlackBox Logic
- DataVerify
- DepotPoint

Harnessing Mobile Award
- PHH Mortgage
- Quicken Loans
- Zillow

Lasting Impact Award
- Cogent QC Systems
- Equator
- Glenn Liebowitz, GCC Servicing

Release of the Year Award
- AllRegs and Motivity Solutions
- DocVelocity
- DRI Management Systems

Steve Fraser Visionary Award
- Nancy Alley, Xerox Mortgage
- Larry Barnett, BlackBox Logic
- Niraj Patel, ISGN

Synergy Award
- EMC and Wolters Kluwer
- Equifax and Interthinx
- Hope LoanPort and IndiSoft