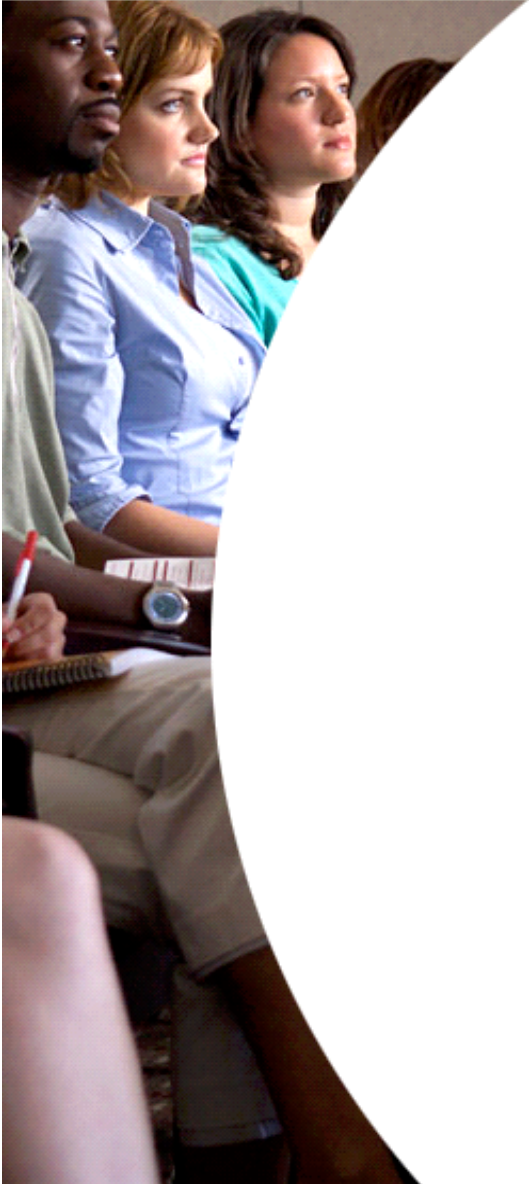




Lending and QC in the Emerging Markets

John L. Gray
Senior Vice President
EMC Mortgage/Bear Stearns Residential

Objectives

- 
- Why serve emerging markets
 - Current products and what will the future reveal
 - Definition of Emerging Market
 - How will new Immigration Laws affect Emerging Markets
 - Fraud Prevention Steps
 - Loan Fraud Types and "Red Flags"
 - Is Technology the Answer?

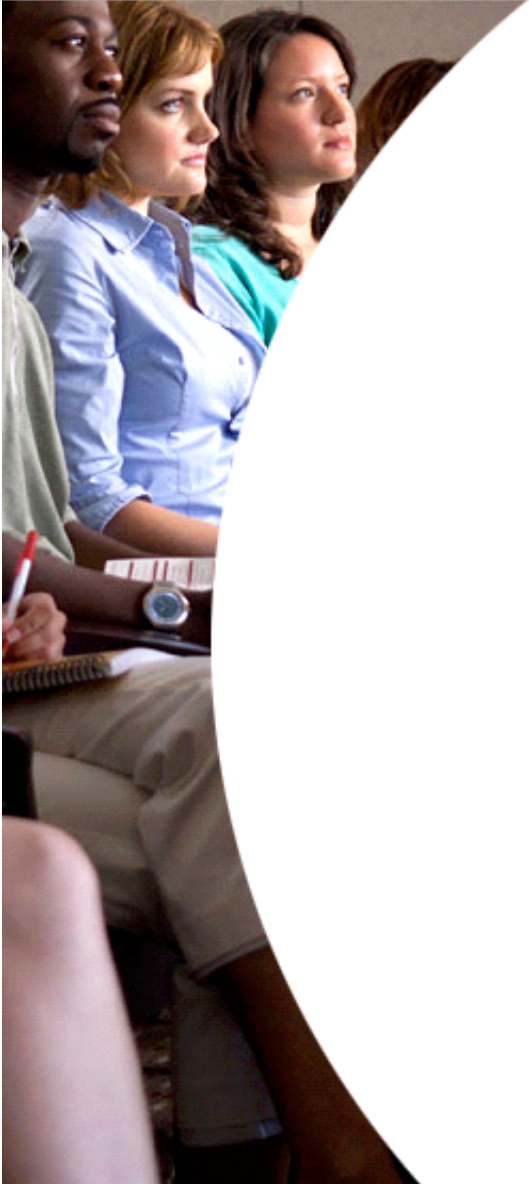
Why Serve Emerging Markets?



- Previously emerging markets were centered in CA, TX, FL and New York
 - Demographic is growing outside these states
- Embed immigrants into US home ownership
 - Increased dependency, trust & interaction between cultures
 - Keep investment dollars in the US (\$23B sent to Latin and Caribbean countries in 2001)
- Forecast states immigrants will account for one third of household growth in 10 years
 - Minority households increased to 33% in Feb. 2006
- Expanded investment opportunities for the industry
- 90% of all durable goods were purchased by the white population in the USA in 1990
 - Forecast to decrease to 77% in 2010

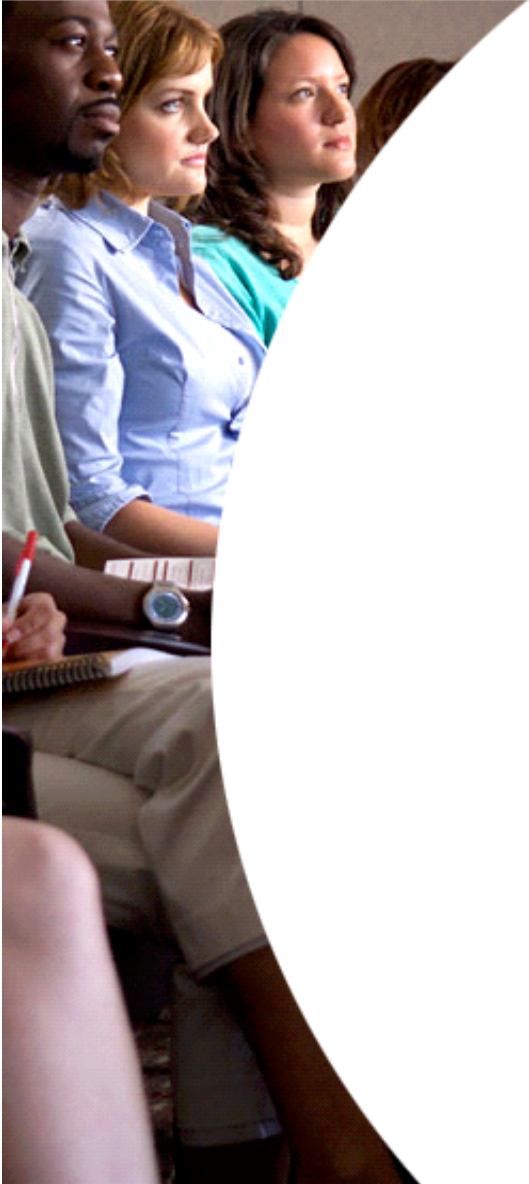


Products Now and in the Future?



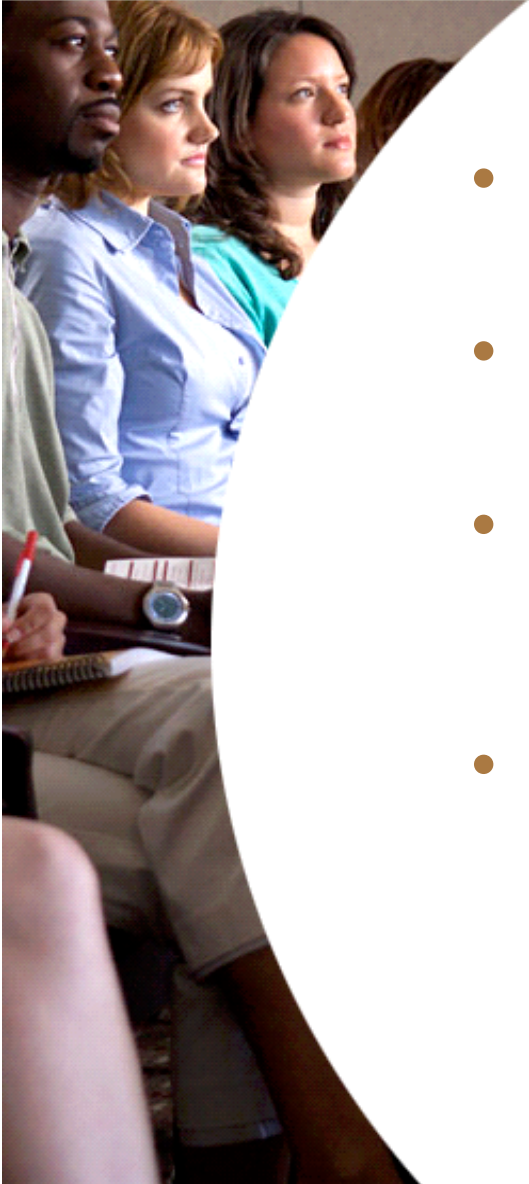
- Interest Only
- Low Doc
- No Doc
- No Ratio
- 40 Year Mortgages
- 50 Year Mortgages
- Option Arms
- New Negative Amortization Products in the Future?
- Possibly AVM's no appraisal?
- Back to 125% LTV's?
- Are we really changing or cycling?

Definition Of Emerging Markets



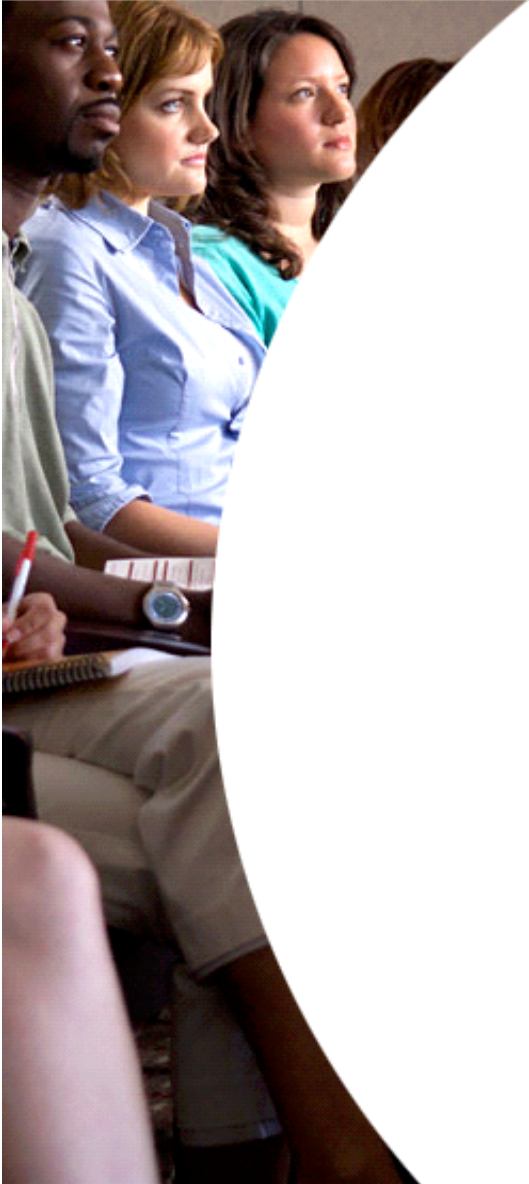
- Any ethnic, religious or specific group of people who have special and unique needs because of language, cultural or other differences.
- The Mortgage Industry should develop products to meet these specific needs and go out into these communities and understand them.
- This is a new market and a great opportunity for everyone involved.
- Training is the key to becoming successful.

Immigration Laws



- Could there be any deportation or will a full amnesty be granted?
- How will either of these affect repayment of the Mortgage Loans?
- Will there be a significant increase or decrease in identity theft due to any Immigration Law changes?
- Is the Federal Tax Identification Number enough?

Basic steps . . .

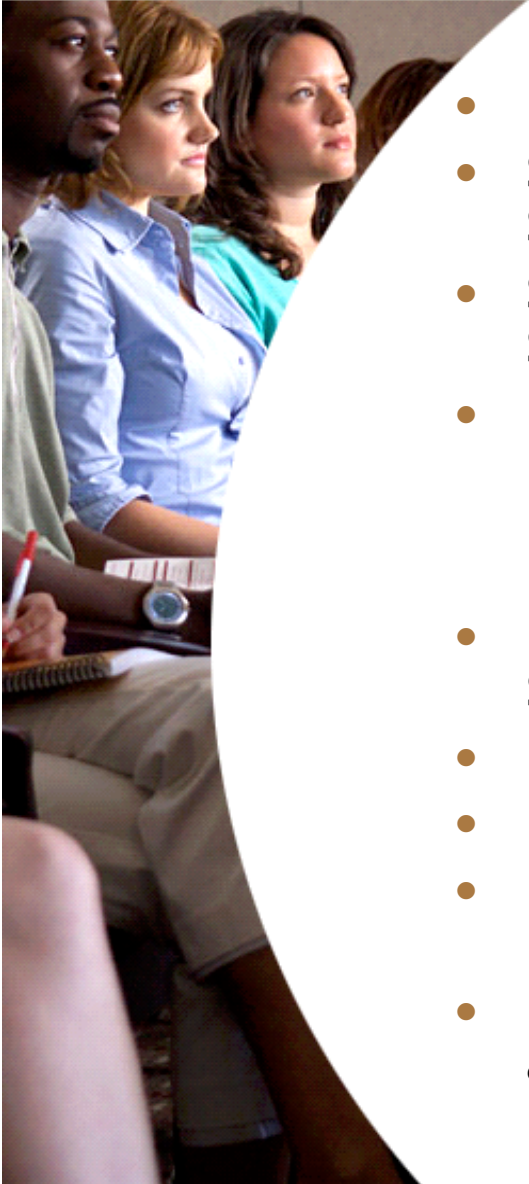


- **Know who you are doing business with**
- **Conduct background checks on your brokers and correspondents (criminal and civil, run news articles)**
- **Loan Level - watch out for ID Theft, biggest type of fraud in US today**
- **Pay attention to Credit Alerts**
- **If possible, use the Pre-funding Tools that are available today**
- **Call and verify job at least once during processing of loan**
- **Make sure someone checks borrower's ID at closing**
- **Immigrants are sometimes preyed upon by criminals**
 - They do not understand the mortgage process, are sometimes used as "straw buyers" and can become victims in pattern frauds.

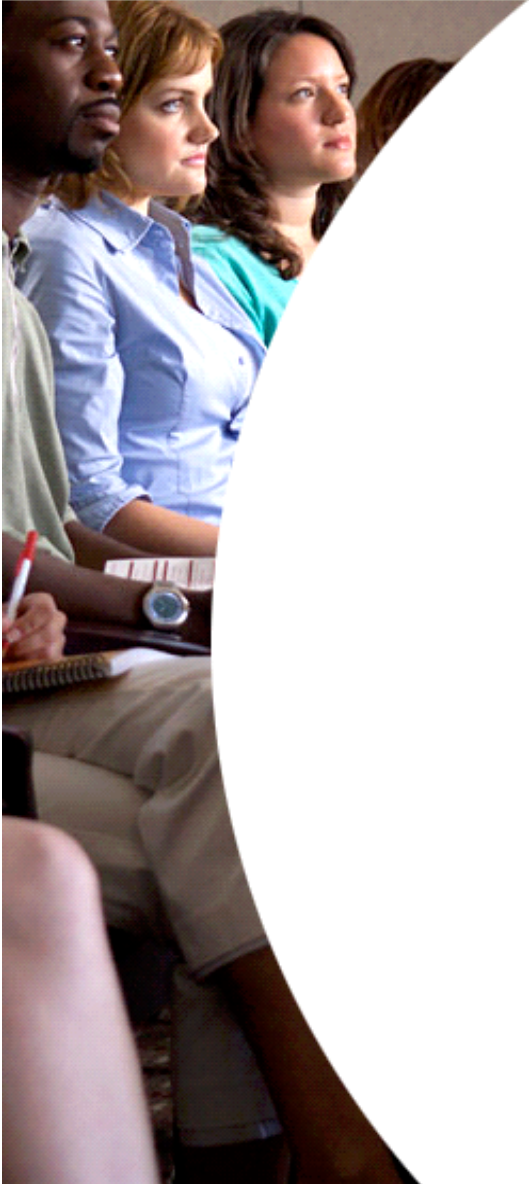
Flipping for Fun . . .

- \$100,000 property purchased at Real Market Value by Con Man A from seller
- Two seconds later Con Man A sells the same property to Con Man B (his Partner) for \$500,000
- Con Man B applies to ABC Mortgage for an 80/20 for \$400,000 and \$100,000 (obviously Con Man A & B have an appraiser in their pocket)
- Con Man B gets approved by ABC Mortgage, the seller gets \$100,000
- Con A & B split \$400,000

Red Flags for Flipping

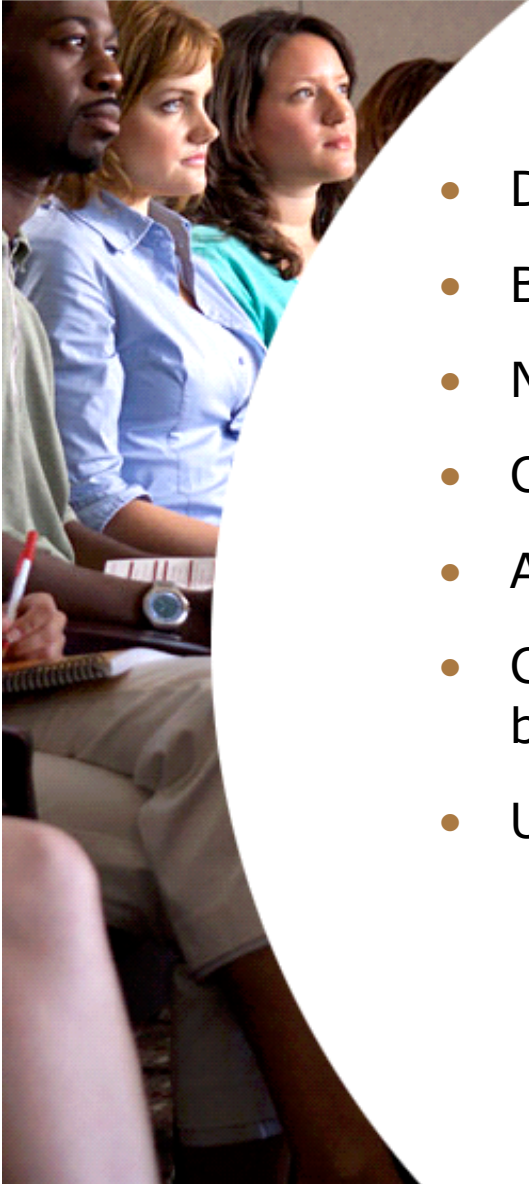
- 
- Excessive down payment on 1003
 - Seller not in title (refer to Title Commitment, Schedule B)
 - Seller recently took title (refer to Title Commitment, Schd B)
 - Recent sales with much lower amounts
 - HUD transfer (refer to Title Commitment, Schedule B and Appraisal Report, Page 2 - transfers in last 12 months)
 - Large amounts for recent deposits on VODs or Bank Statements
 - Large gift funds or gifts of equity
 - Large seller concessions
 - Numerous loans to one borrower in same neighborhood
 - Loans with same borrower, loan officer, realtor, appraiser, seller, closing agent/attorney

Straw Buy

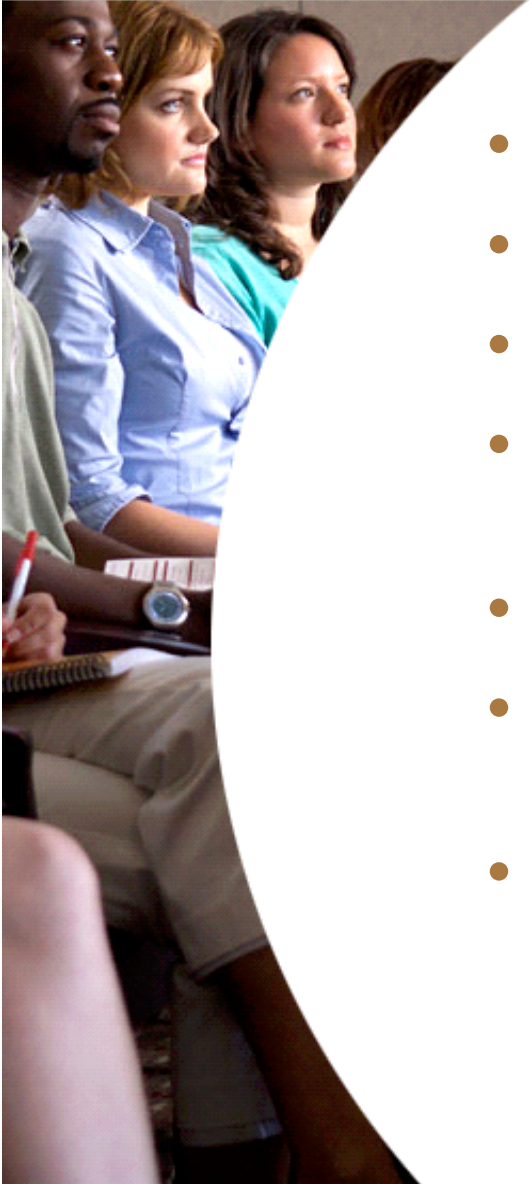


- Straw Buy: to substitute a person's credentials for someone else's. Straw buy is not only used in mortgages but in stocks, corporate transfers and other financial transactions.
- Two types of Straw Buy: relative/friend/employer who is trying to help someone and the paid straw buy who is normally associated with "flips," builder bail-outs, and schemes.

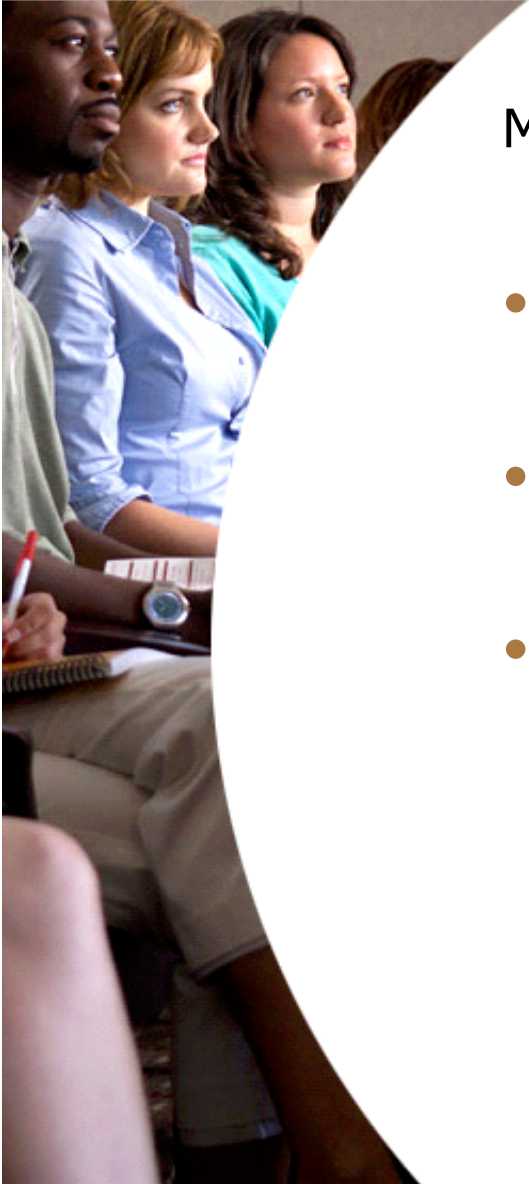
Red Flags for Straw Buy

- 
- Down payment from someone other than borrower
 - Borrower buying down
 - No realtor involved in transaction
 - Other party on purchase agreement but not on 1003
 - Additional name to be added on legal documents
 - Credit Bureau in file for someone other than borrower
 - Unrealistic distance for commute to job

Red Flags for Straw Buy Refinance

- 
- Related parties
 - No realtor involved in transaction
 - Delinquent taxes (refer to Title Commitment)
 - Lis Pendens, borrower in foreclosure (refer to Title Commitment)
 - Borrower buying down
 - Purchasing at market value even though related parties
 - Questionable down payment (e.g. gifts, notes, etc.)

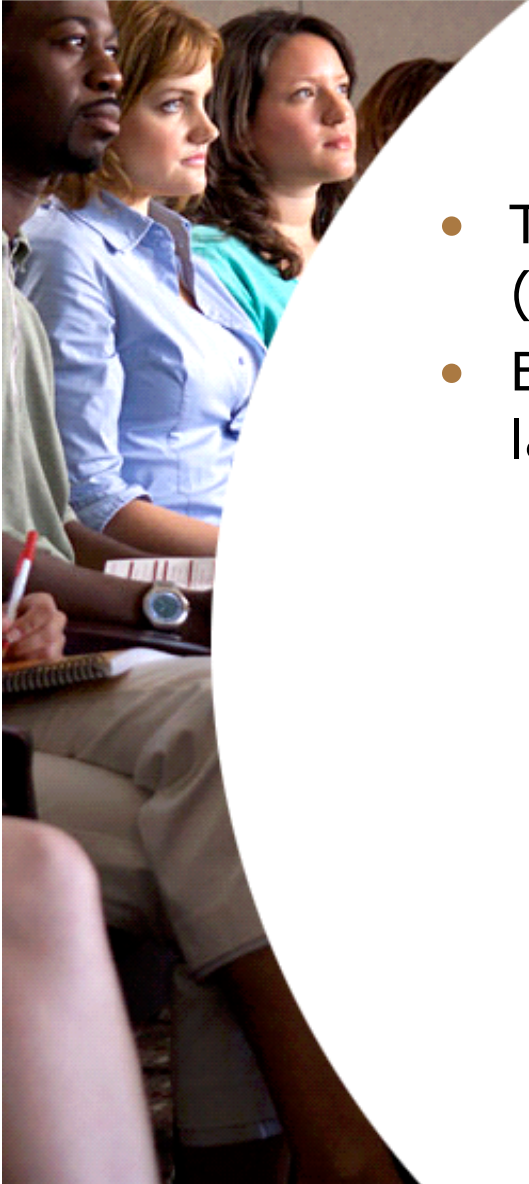
Builder Bailout



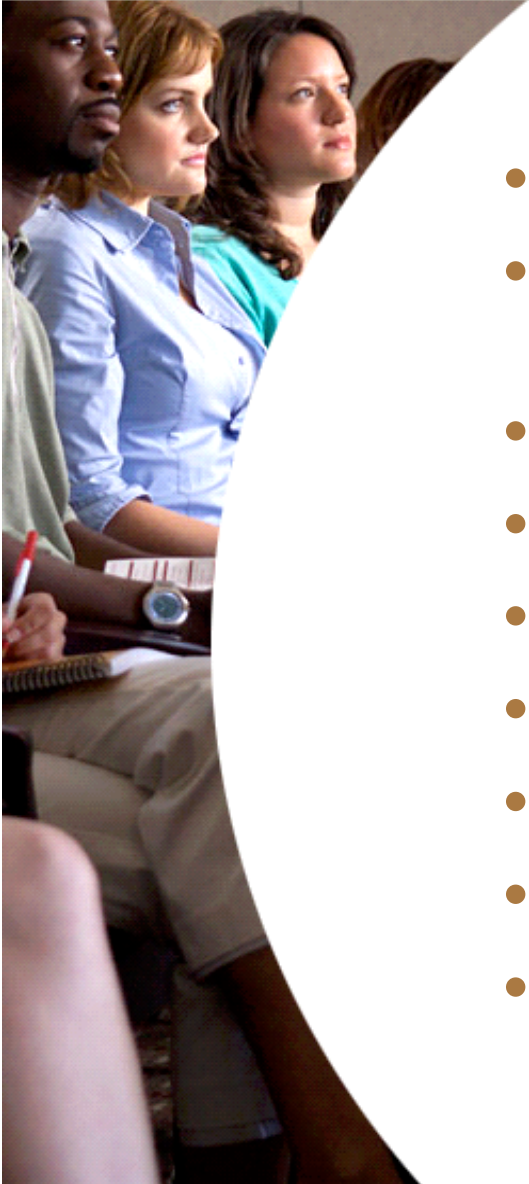
Market has slowed and the builder has a construction loan on a condo project:

- Builder either goes into default or comes up with “ingenious financing”
- Advertises “buy a unit, no money down, get rental income”
- The builder is also the seller, so the appraiser uses other units in the development as comps and increases values

Builder Bailout (cont.)

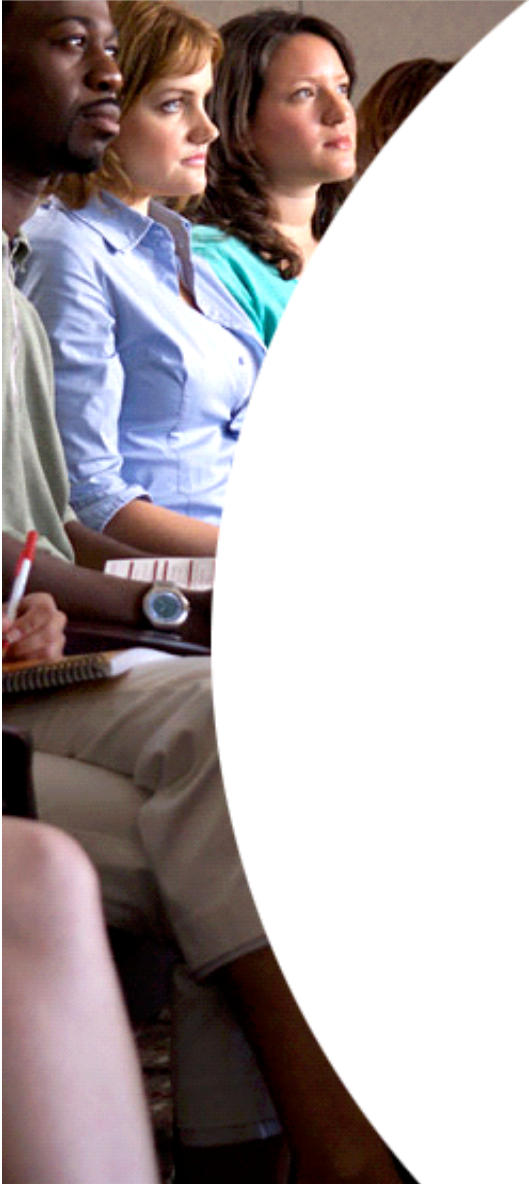
- 
- The “no money down” becomes a silent 2nd (normally a 3 or 5 year balloon)
 - Borrowers go to refinance the balloon at a later date
 - Value not supported
 - Project defaults

Red Flags for Builder Bailout



- Excessive down-payment
- Sometimes owner occupied in investment market
- Gifts
- Condo sales in slow to medium market
- Usually all 80% LTVs
- Inflated values
- All comps are in same condo project
- Numerous loans to one borrower
- Sometimes loans to builder's employees

Is Technology the Answer?



- Yes it is!!
- There is a new product almost every month in every facet of our industry
- Background checks are conducted on companies/officers we do business with
- Front end systems
- In Pre-funding
- Automated Underwriting
- Servicing
- Quality Control
- Internal Audit
- Legal
- Compliance
- So on and so on and so.....