

# Automated Technology And Market Trends In Today's Environment

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# Real Estate Market Headlines

- **San Diego Daily Transcript: Wednesday, August 2, 2006**
  - **Mortgage defaults on the rise in California**
    - Mortgage defaults in California rose more than 67 percent during the second quarter, compared with the same period last year, the result of slowing annual home price gains, a real estate research firm said Wednesday.
- **Developers nix or delay condo projects as sales slow, costs rise**
  - *AP July 21, 2006*
  - *By DEBORAH YAO PHILADELPHIA –*
  - In a city cluttered with condominium construction, Old City 205 aspired to shine as an ultramodern residence for the well-heeled with its zinc and glass facade, loft-style homes and windows that span floor to ceiling.
  - Too bad no one will get to move in now: The \$40 million project in Philadelphia's Old City neighborhood won't break ground after the housing market softened and increasingly picky buyers balked at its price tags from \$400,000 for a studio to over \$2 million for a three-bedroom penthouse.
- **Inman News: Thursday, May 18, 2006**
  - **Reports: Real estate loan fraud getting worse. Number of suspicious activity reports up 33%.**

# Valuation Due Diligence

- Review Loan Characteristics to Help Identify Loans Requiring Closer Look
  - Low FICO Scores
  - High LTV / High Value / Loan Amounts
  - Low Credit Grade
  - Seasoned Loans
  - Properties Located in High Risk Markets
- Valuation
  - Automated Fraud Tools - HistoryPro
    - Fraud Score
    - T Ratio (Foreclosure Ratio)
    - 3YT Yes (Subject Previous Foreclosure Identifier)
  - Automated Value Models
- Realtor.com and other listing web sites
- Sitex Data and
- Elevated valuation process on all loans that do not pass established triggers above
  - BPO, Drive By Review, Desk Top Review

# Loan Tape High Risk Characteristics

## High Risk Loan Characteristics

FICO	Doc Type	Purp	Property Type	Occup	DTI	Grade	Combined LTV	Orig Bal	Appr	City	State	Lien Position
502	FULL	CO	SFR	I	50.14	C	52.63	50,000	95,000	DETROIT	MI	1
503	STD	CO	SFR	P	35.04	AA	77.15	52,000	67,400	FLORESVILLE	TX	1
503	FULL	P	CO	P	48.61	AA	100	74,400	93,000	INDIANAPOLIS	IN	1
506	FULL	CO	SFR	P	49.82	AA	85	65,875	77,500	DAYTON	OH	1
506	FULL	CO	SFR	P	12.64	A+	80	188,000	235,000	MIDLOTHIAN	TX	1
507	FULL	CO	SFR	P	38.6	A+	85	221,000	260,000	44 CARR ST	RI	1
508	FULL	CO	SFR	P	45.95	AA	85	50,150	59,000	OKLAHOMA CITY	OK	1
508	FULL	RT	SFR	P	41.59	AA	64.72	200,000	309,000	DEER RIVER	MN	1
509	FULL	P	SFR	I	39.73	AA	90	56,000	82,000	DETROIT	MI	1
509	FULL	RT	SFR	P	43.49	A+	85	119,000	140,000	DETROIT	MI	1
511	FULL	CO	SFR	P	40.94	C	75	95,250	127,000	MEMPHIS	TN	1
511	FULL	RT	SFR	P	47.75	A-	85	242,250	285,000	CANTERBURY	CT	1
512	FULL	CO	SFR	P	37.41	B	85	64,090	75,400	COLUMBIA	SC	1
512	FULL	CO	SFR	P	44.18	B	67.07	224,000	334,000	AUBURN	MA	1
513	FULL	CO	SFR	P	55.83	C	72.58	225,000	310,000	CAPE CORAL	FL	1
514	FULL	CO	SFR	P	42.27	A-	66.67	80,000	120,000	PHOENIX	AZ	1
517	FULL	CO	SFR	P	25	C	75	57,000	76,000	SAVANNAH	GA	1
517	STD	P	SFR	P	31.27	AA	100	79,200	99,000	DETROIT	MI	1
518	FULL	CO	SFR	P	46.65	A+	85	160,650	189,000	CLEVELAND	OH	1

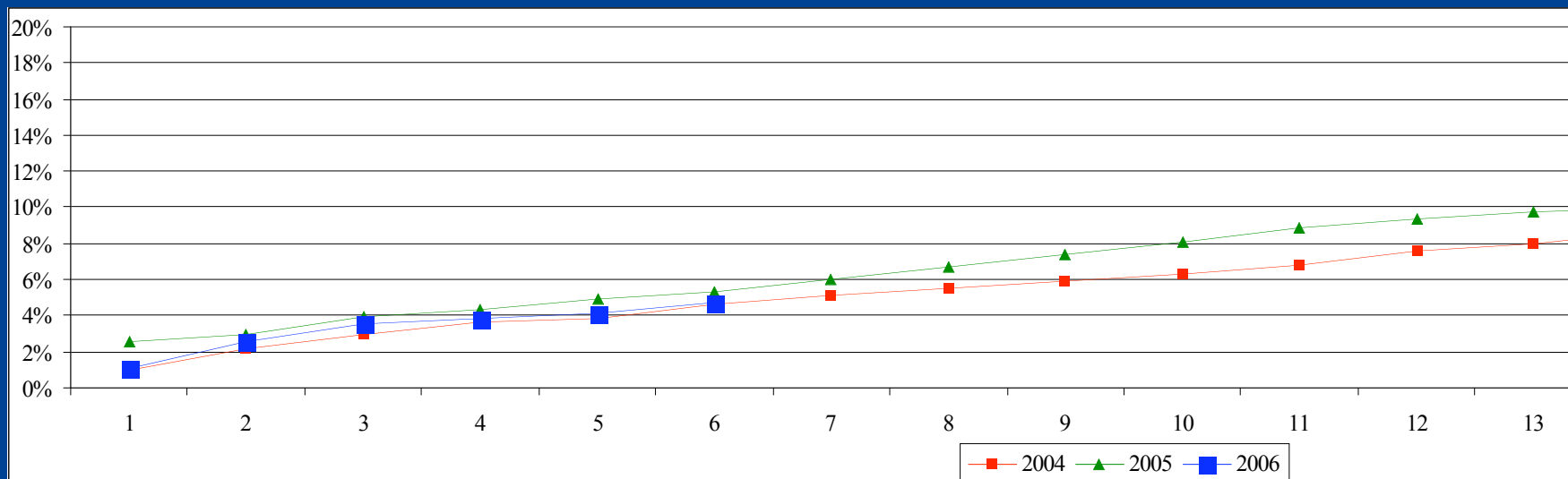
# Automated Fraud Indicators

## High Risk HistoryPro Results

HistoryPro™ F-Score	HistoryPro™ Subject T- Flag	HistoryPro™ Mkt T-Ratio	HistoryPro™ Mkt S-Gain	HistoryPro™ Subject S-Gain	HistoryPro™ Mkt Mean Value	HistoryPro™ Mkt Med Value	HistoryPro™ Last Sale Amt	HistoryPro™ Last Sale Date	HistoryPro™ Med Value Variance	City	State	Flip Flag
25		11.00%	79.30%	81.80%	176200	178000	82500	15-Nov-05	-8.72%	CLEARWATER	FL	1
25		25.00%	82.40%	0%	136940	140000	69000	19-May-05	-25.33%	ATLANTA	GA	1
25		14.00%	103.80%	23%	85822	87500	45500	6-Apr-05	-21.52%	TAMPA	FL	1
25		11.00%	0.00%	0%	55686	54967	87000	30-Apr-01	-68.11%	PIGGOTT	AR	
25		14.00%	84.70%	0%	143315	131500	15500	30-Mar-99	-26.94%	WILLIAMSBURG	OH	1
25	YES	51.00%	146.00%	353.30%	54244	47500	68000	22-Dec-05	-36.67%	ROCHESTER	NY	1
25	YES	48.00%	121.30%	26.40%	54544	45500	46000	24-May-05	-45.18%	COLUMBUS	OH	1
25		57.00%	137.40%	124%	26548	20000	56000	12-Jan-06	-64.29%	DAYTON	OH	1
25		11.00%	167.80%	0%	109046	100000	93000	16-Dec-05	-29.58%	TAFT	CA	1
25		45.00%	101.90%	0%	32428	23000	35000	16-Jun-00	-67.14%	PHILADELPHIA	PA	1
25		31.00%	70.40%	764.10%	67564	76000	38885	31-Jan-06	-10.59%	GRAND RAPIDS	MI	1
25		5.00%	94.40%	103.90%	137655	142500	51700	23-Dec-05	-25.78%	LEHIGH ACRES	FL	
25		80.00%	145.20%	0%	228005	250000	107000	18-Aug-05	-16.67%	ATLANTA	GA	1
25	YES	62.00%	29.30%	45.20%	137384	138997	145000	22-Dec-05	-16.77%	AURORA	CO	1
25	YES	54.00%	135.10%	240.90%	46996	46000	74000	12-Jan-06	-43.90%	CANTON	OH	1
25		37.00%	225.20%	0%	36085	28000	75000	24-Jan-06	-62.67%	LITTLE ROCK	AR	1
25	YES	68.00%	140.70%	0%	61657	71820	2174	25-Oct-03	15.84%	INDIANAPOLIS	IN	1
25		51.00%	117.60%	0%	107953	105000	87500	28-Sep-05	-33.12%	ATLANTA	GA	1
25		20.00%	60.40%	0%	115390	107000	70900	12-Dec-03	-72.56%	TAMPA	FL	1
25		25.00%	122.20%	185.70%	217431	200000	300000	25-Jan-06	-37.11%	CHICAGO	IL	1
25		31.00%	62.30%	0%	126331	117040	197837	11-Jul-02	-55.83%	BROWNSVILLE	TX	1
25		44.00%	220.20%	0%	76250	80000	79000	8-Jun-05	-39.85%	TWENTYNINE PALMS	CA	1
25	YES	34.00%	140.00%	0%	60119	60000	58966	8-Sep-05	-25.00%	DETROIT	MI	1

# Automated Fraud Indicators

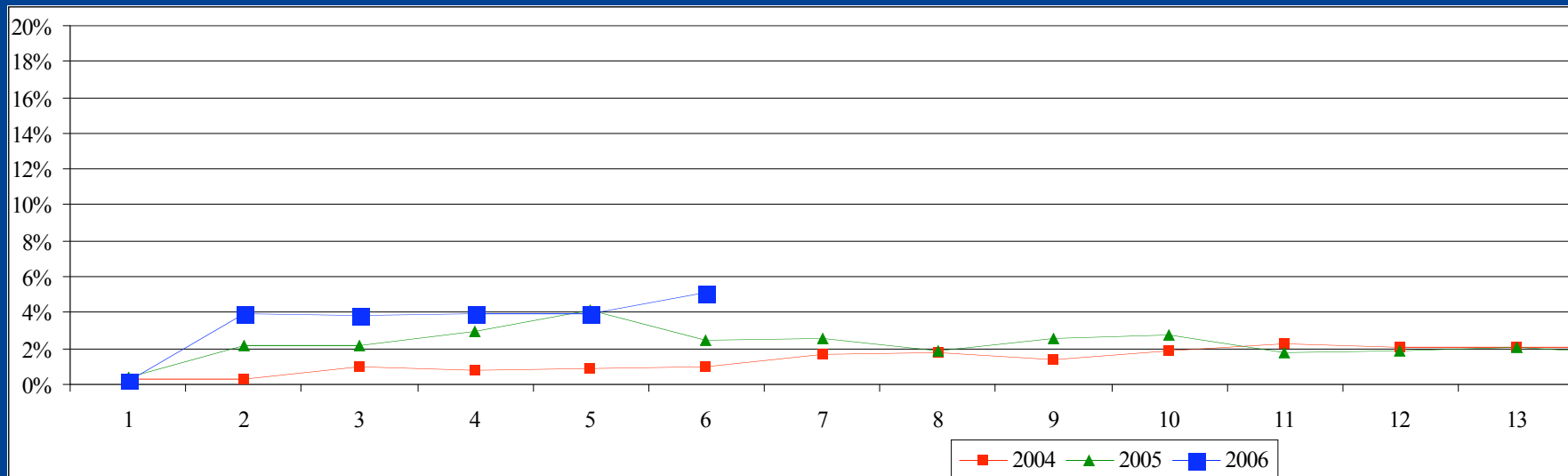
## MSAC 30+ Delinquency



Vintage	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2004	1.0%	2.2%	2.9%	3.6%	3.9%	4.6%	5.1%	5.6%	5.9%	6.3%	6.8%	7.6%	8.0%	8.6%	9.2%	9.7%	10.0%
2005	2.6%	3.0%	3.9%	4.3%	4.9%	5.3%	6.0%	6.7%	7.3%	8.0%	8.8%	9.4%	9.8%	9.9%	10.0%	10.5%	11.2%
2006	1.1%	2.6%	3.5%	3.8%	4.2%	4.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

# Automated Fraud Indicators

## MSM 30+ Delinquency



Vintage	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2004	0.3%	0.3%	1.0%	0.8%	0.8%	0.9%	1.6%	1.8%	1.4%	1.9%	2.3%	2.1%	2.1%	2.1%	2.3%	2.1%	2.3%
2005	0.3%	2.2%	2.2%	2.9%	4.1%	2.4%	2.6%	1.8%	2.5%	2.7%	1.8%	1.9%	2.1%	1.7%	1.7%	0.4%	0.0%
2006	0.2%	3.9%	3.9%	4.0%	3.9%	5.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## Other Hot Topics

- USE of AVM's For Origination
- Current Real Estate Market Conditions
- Fraud "Hot Spots"

# Recognizing Red Flags On The Appraisal

- **Location of the Comparables (Map Page)**

Location is the number one factor that drives property value.

Neighborhoods are defined by Major Arterial Roads, Rail Road Tracks, or other major separation points.

If the appraiser is pulling comps from another neighborhood, the value will not be reflective of the subjects location.

- **Quality of Construction (Photo's)**

Appraisers will sometimes use superior quality of construction comparables to achieve higher values.

Analyze the photo's to look at the roof style & materials, exterior materials & trim, and overall appeal of the subject compared to the Comps.

# Recognizing Red Flags On The Appraisal

- **Size of Comparable Sales Vs. Subject**

A common way of inflating value is using comparable sales over 30% larger than the subject, then adjusting all comparable sales downward with minimal adjustments.

If all of the comparables are larger in size than the subject, have the appraiser submit one more Comp smaller than the subject so that the subject property is “bracketed”.

- **Types of Comparables Vs. Subject (2 br/3 br)**

Another way appraisers inflate values is by using 3-bedroom comps compared to a 2-bedroom comp, and then making a minor adjustment.

The buyer that purchases the 3-bedroom home will not even look at a 2-bedroom house.

- **Across the Board Adjustments**

A common way to inflate value is across the board adjustments for condition, quality of construction, basements, or any non-amenity portion on the appraisal.

“Comps were adjusted for inferior quality of construction, or condition” – Make the appraiser tell you WHY the adjustments were made.

Have the appraiser supply another sale that will bracket the subject and justify the adjustment.

# Recognizing Red Flags On The Appraisal

## •Personal Property

Items such as above ground pools, portable spa's, or anything else that is portable or that can be removed without leaving something behind either damaged or unfinished.

NO value should ever be given for personal property.

## •Use of Dated Sales

Appraisers are using older sales to support values at the high end of the market.

Comps should be recent to demonstrate current market conditions.

## •Functional Obsolescence (Sketch/Written Comments)

An example of functional obsolescence is if you have to go through a bedroom to access another bedroom or having only one bathroom in a house.

The appraiser must address these issues, as the market could have a negative reaction to these types of floor plans.

# Recognizing Red Flags On The Appraisal

## •Unreasonable Adjustments

Using smaller or larger homes and then adjusting for the difference in square footage is the most common type of pushing a value.

*Rules of Thumb when looking at adjustments:*

*Square Footage*

*Quality of Construction/Design and Appeal/Condition*

*Lot Size/Acreage*

*View/In ground Pool/Amenities*

## Effective Age of Subject (Photo's/Written Comments)

Lowering the effective age, without support is the way many appraisers increase the condition and value of the property.

Make sure the appraiser has full support for lowering the effective age, view the photo's and check the written comments.

Acceptable reasons are remodeled kitchen, remodeled bathrooms, new electrical wiring, new plumbing, etc.

A non-acceptable reason is freshly painted or new carpet.

# Recognizing Red Flags On The Appraisal

## •External Obsolescence (Map Page/Photo's)

- A subject located on a busy street, major thoroughfares, next door to industrial use, downwind from the county landfill, are all major influences in value.
- Use the map to see if the subject is near busy streets or railroad tracks.
- Look at the street scene photo to determine if it is located next door to a gas station, etc.
- If you see any of these items, ask yourself if you would pay the same price for a home with these obsolescence's as a home without.

# Recognizing Red Flags On The Appraisal

## Prior Sale of Subject or Comparables within Last 36 Months

- USPAP (Uniform Standards of Professional Appraisal Practice) states all sales or listing history of the subject property for the past 36 months and comparable sales within 12 months must be reported and analyzed by the appraiser.
- If the subject is currently appraised \$150,000 on a refinance, after selling 6 months ago for \$100,000, the appraiser needs to justify the improvements or other factors that drove the price up so quickly.
- Borrower should be the same as owner on public records for refinance transactions and seller should be the same as owner on public records for purchase transactions. If there is a difference and it is not explained, then you have a transfer that took place that has not been reported.

# Markets Decreasing in Value

## Early Warning Signs of Decreasing Property Values

- Average market time in highly appreciating markets has been 30 to 60 days. The market time to watch for is 4-6 months or greater.
- Increase in available housing supply on the market.
- Increase of REO properties available for sale on the market.
- Appraisers using all dated sales, 6 months or older to reflect higher values.
- Information from news articles explaining a declining market or home sales have greatly slowed down.
- Homes selling 10% or more under list price.
- Any reduction in home listing prices currently on the market.
- Comp selection from neighboring subdivisions or neighborhoods.
- Active listings being offered less than sale prices in the market place.

# Uses for Automated Technology Products

## Due Diligence

- Valuation Tools for Due Diligence
  - Automated Fraud Tools
  - Automated Value Models
  - Appraisal Imaging
  - OCR and OCM Technology
  - Automated Appraisal Review Systems

## Other Uses

- Pre-Funding QC
- Post Funding QC
- High Risk Appraisers
- Portfolio Monitoring
- Repurchase Management Screening
- Early Payment Default Analysis and Investigations

Follow Up

**Questions?**