



Evaluating Mortgage Origination Practices in Securitization Transactions— The Moody's Approach

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Origination Practices

- What is a lender doing to verify the accuracy of information it receives with respect to a loan:
 - before that loan is funded?
 - after that loan is funded?



Borrower Information

- How does the originator verify:
 - Borrower Identity
 - Social Security Number
 - Credit History
 - Employment History
 - Income and Assets



Goals of Verifying Personal Information

- Detect identity theft
- Detect “straw buyers”
- Detect inaccurate information provided to qualify for a loan



How is borrower information verified in different documentation programs?



- How is borrower employment verified in a stated documentation program, if at all?
- Is the information that the borrower provided reasonable?
- What does the lender look at for self-employed borrowers?



Down Payments

- Source of Income
- Duration of Control



Appraisals

- Process
- Monitoring
- Due Diligence



Appraisal Monitoring

- Automated Valuation Models
- Other Software Systems
- In-House Reviewers



After Funding

- Quality Control
- Audits
- Training Programs/Continuing Education



How does Moody's use the information?

- Securitization Pool Review Process
- High quality origination practices in theory lead to reduced frequency of default and severity
- Moody's does not receive information on a loan-level basis



Representations and Warranties

- Representations and warranties are given by the sellers
 - Loan characteristics
 - Validity and Enforceability of the Lien
 - Good title/validity of title insurance
 - Valid
 - Compliance with laws
 - No fraud



Remedies for Breach

- Remedy is the repurchase of the loan from the trust
- Problem of proof
- Early Payment Defaults
- Systemic fraud may mean larger repurchase obligations



Evaluating Representations and Warranties

- Financial strength and stability of the entity providing reps and warranties
- Problem of high volumes of repurchases.

