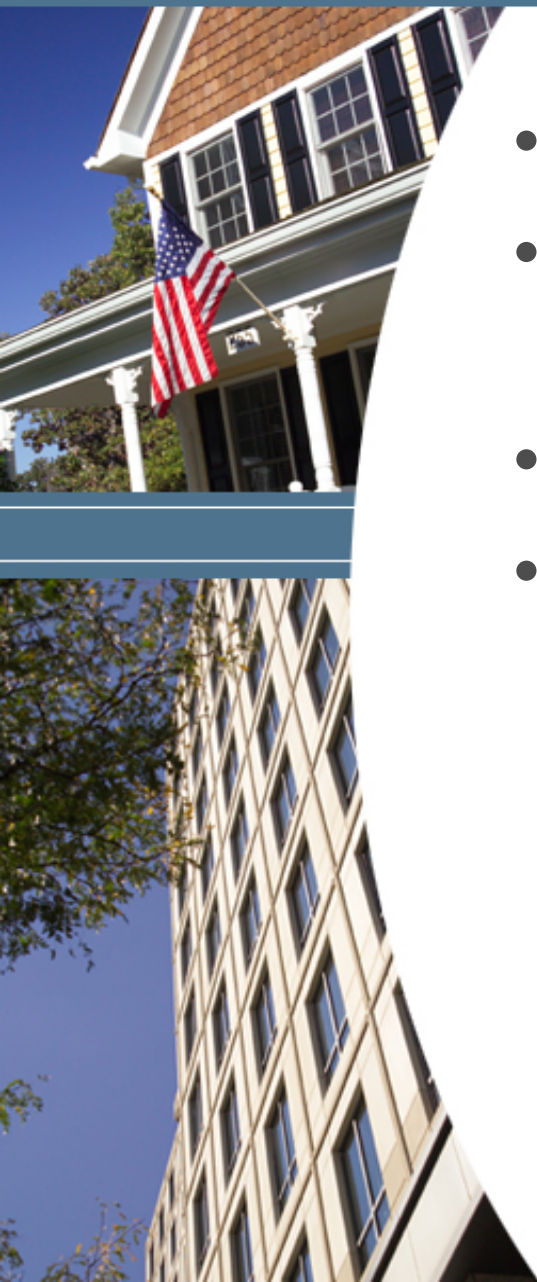
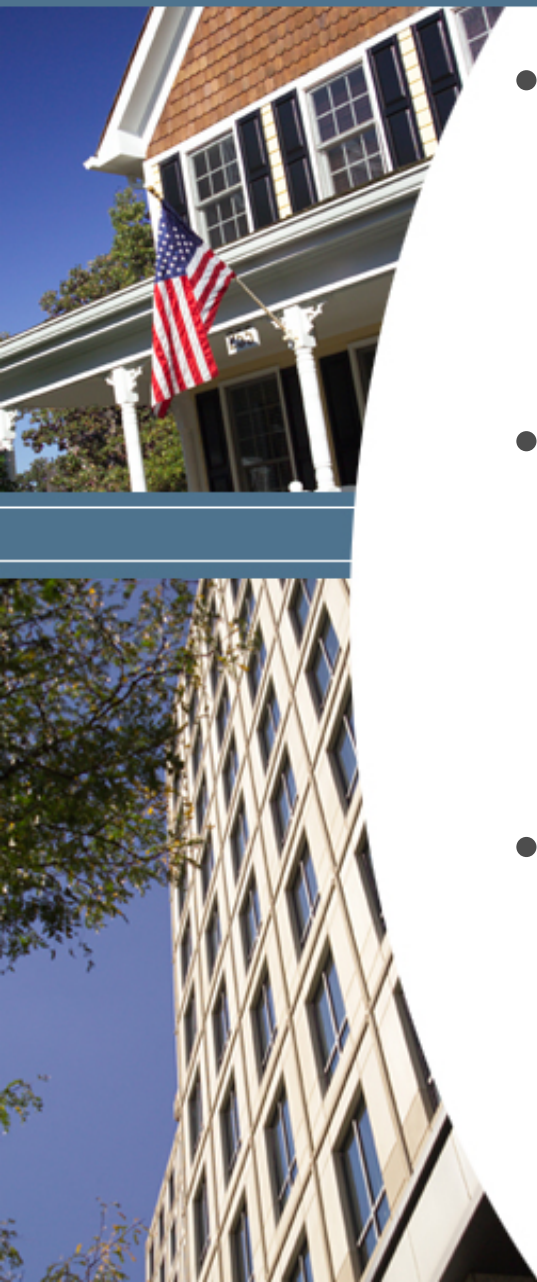




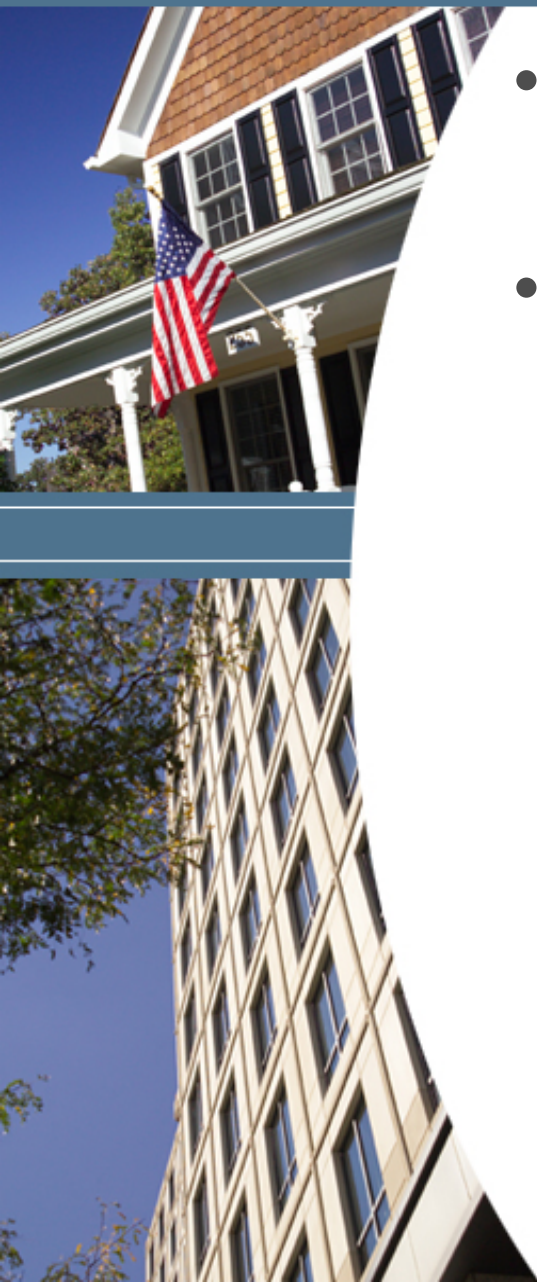
Back to Basics

Risk Analysis In An Alt A World (Part I)

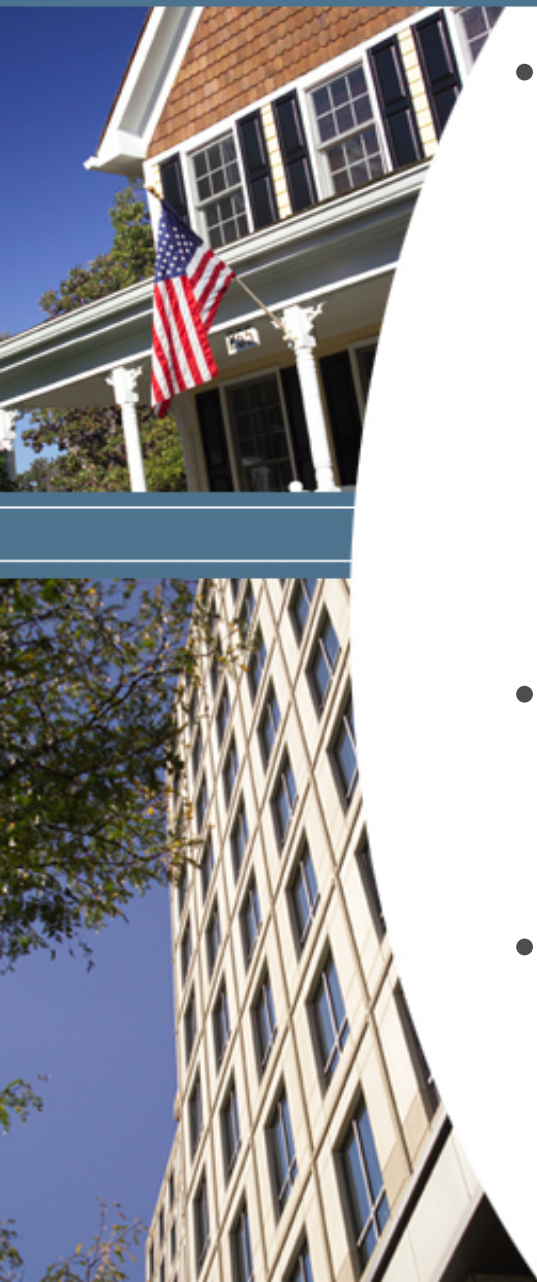
- 
- History lesson
 - Back to basics: the six pillars of risk analysis
 - Contributory risk factors
 - The underwriter's role today



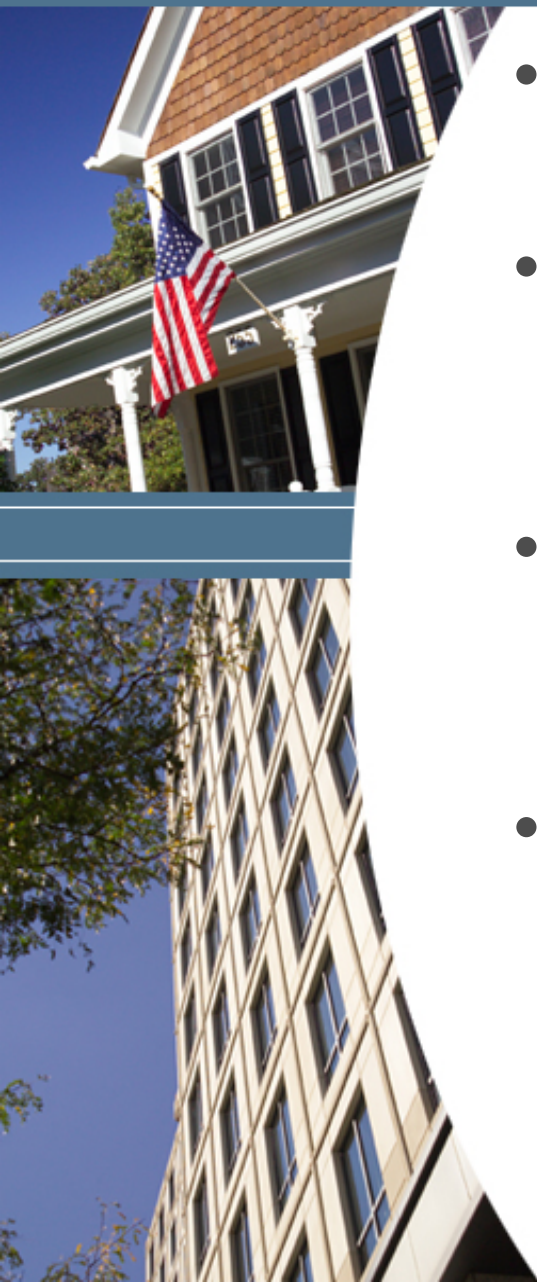
- Prior To The Mid 1990's: BC (Before Credit scores)
 - » 100% manual review of credit, income, assets
 - » PMI Aura system decision tool in beta
- We didn't trust credit scores!
 - » What if the credit report has errors!
 - » What about the reason for the late payments!
 - » What about the importance of the mortgage reference on its own!
- We didn't embrace automated underwriting!
 - » How did they program a computer with common sense?!
 - » Why don't I need income documentation on some loans?



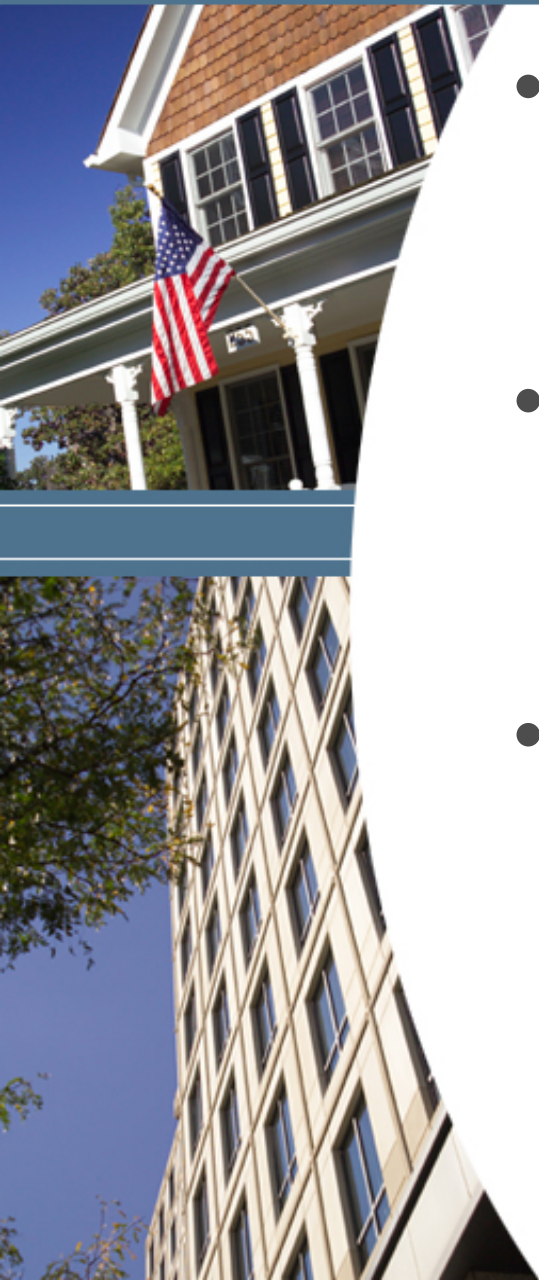
- Credit scores essentially enabled automated underwriting to expand
- The transition to automated underwriting required ‘re-programming’ of the underwriters to accept what statistics had ‘proven’:
 - » Lower risk loans didn’t require the same amount of documentation as higher risk loans
 - » ‘The likelihood of default’ was now a statistic impacting underwriting requirements
 - » What we thought was risk.. changed
 - » We had to be trained to accept the computer’s decision



- Market conditions during early 2000's contributed to the shift in underwriting skills:
 - » Rising values meant appraisals were easy to evaluate and didn't add an unforeseen layer of risk
 - » Growing economy meant people had jobs and reasonable credit
 - » Refi mania meant LO's didn't have to take applications with big challenges
- By 2003 investors' appetite for higher risk conditioned us to believe that anyone could get a loan (for a price).
- We didn't have to make tough loans on conforming products – we moved it to a subprime product.



- 2007... investors get a taste of what can happen to high risk loans
- Challenging (Alt A) scenarios need to fit into conforming and government loan products
- Underwriters can't rely solely on 'Approve/Accept' as a safety net for their loan decision
- Underwriters must have the ability to analyze risk and identify the best solution for a borrower beyond just accepting or rejecting an AUS decision.



- Automated underwriting is a TOOL
 - » Trust the objectivity
 - » Check everything
- Do you need a refresher on the actual data that is captured?
 - » What doesn't AU assess?
- Credit scores indicate the likelihood of default.
 - » Do you need to take a credit score course again?

- The six pillars:

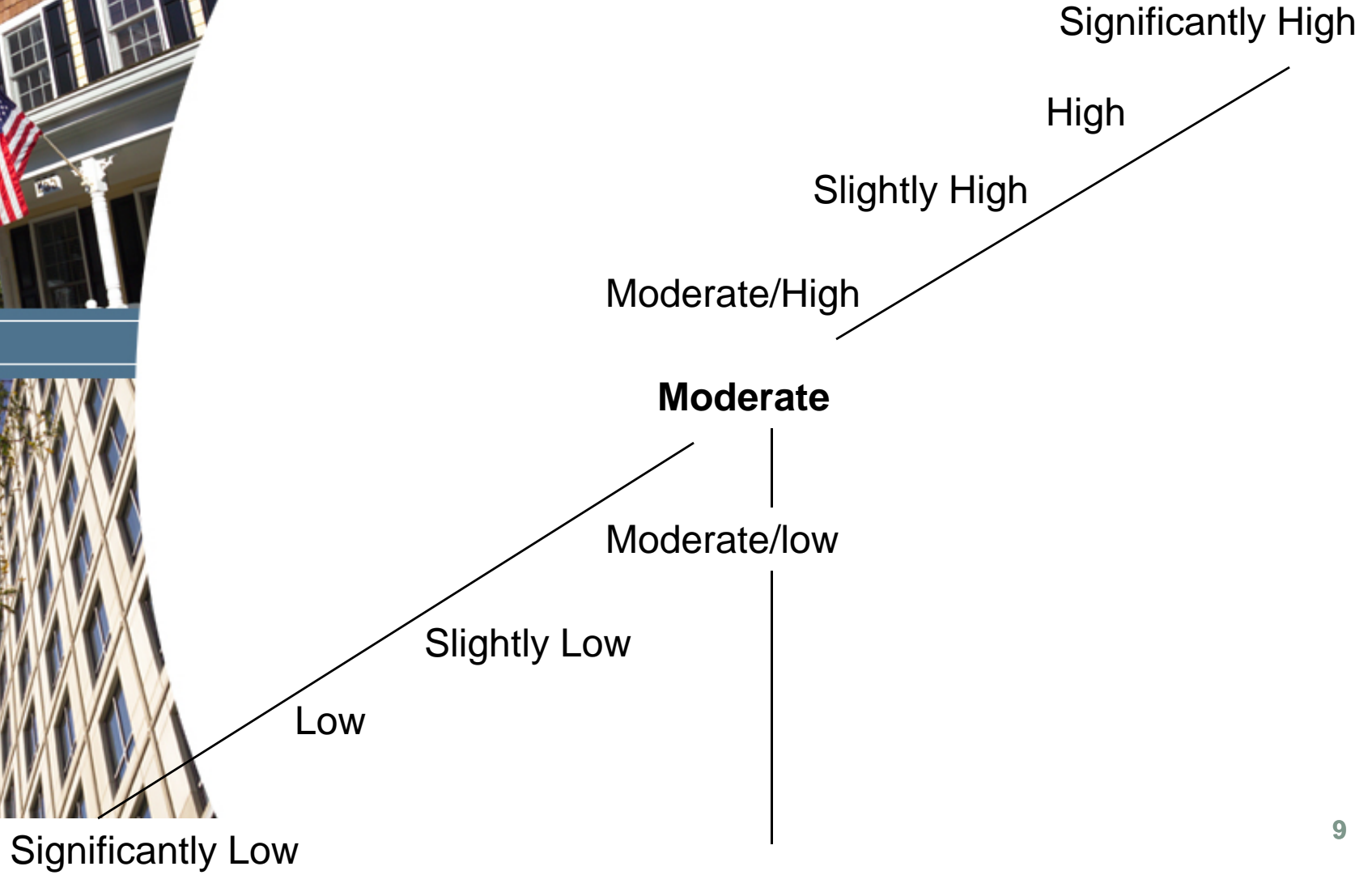
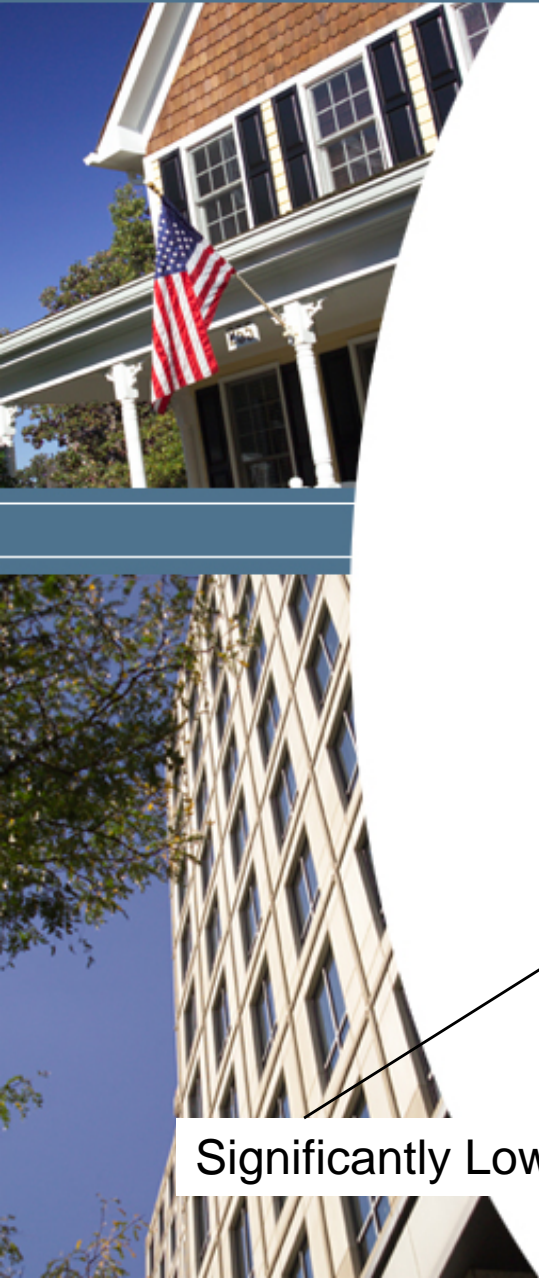
Primary Risk Factors

- » Credit
 - » LTV
-

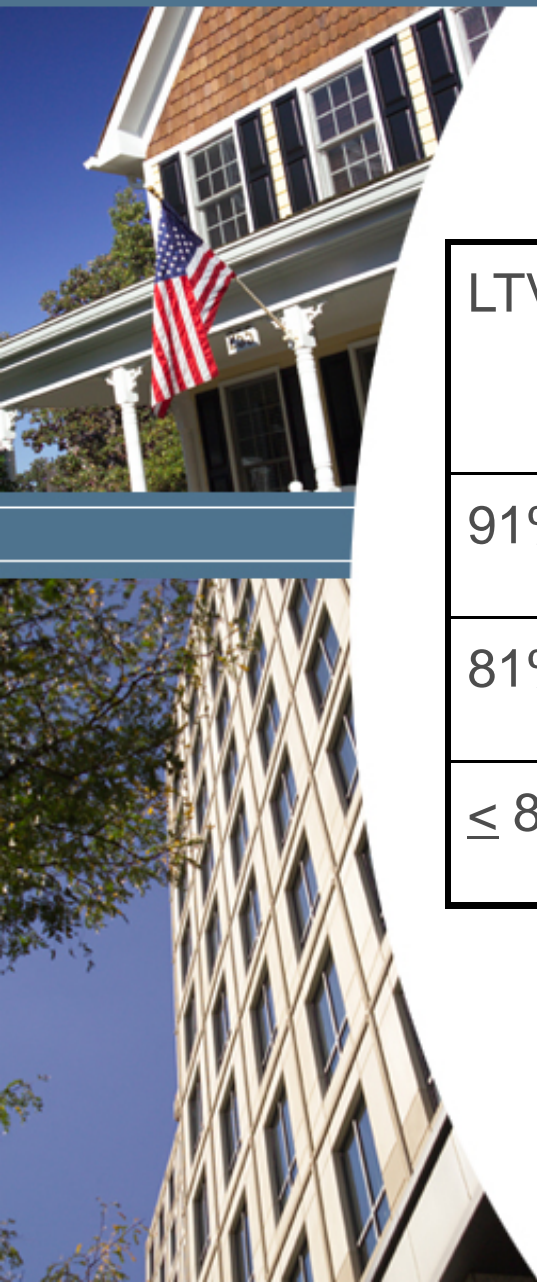
- » Assets
- » Income stability
- » Qualifying ratios
- » Property

Identify the primary risk factors and rate the risk

Visualize Risk

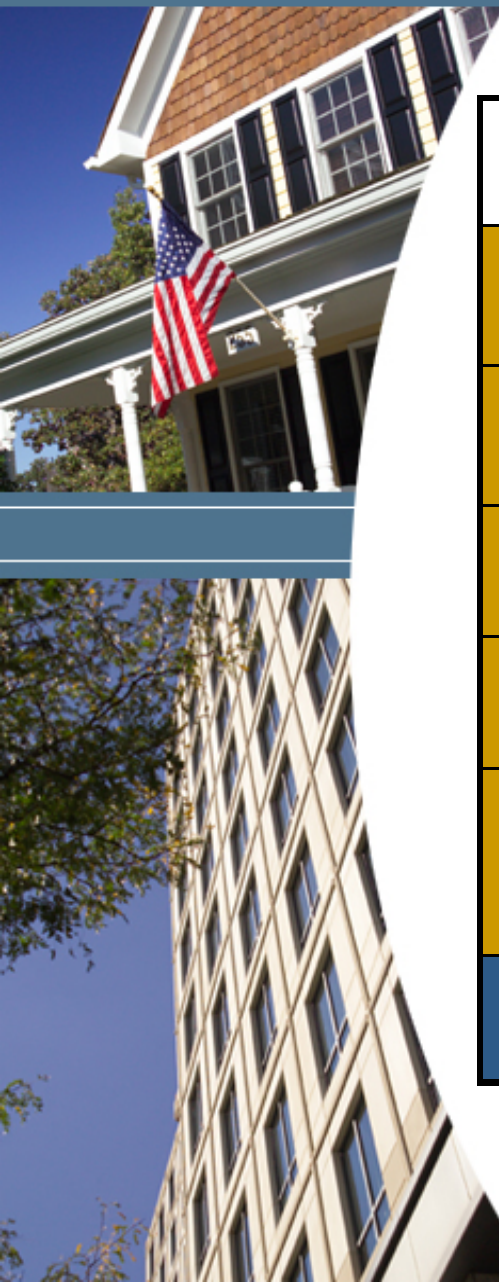


Overview Of Primary Risk



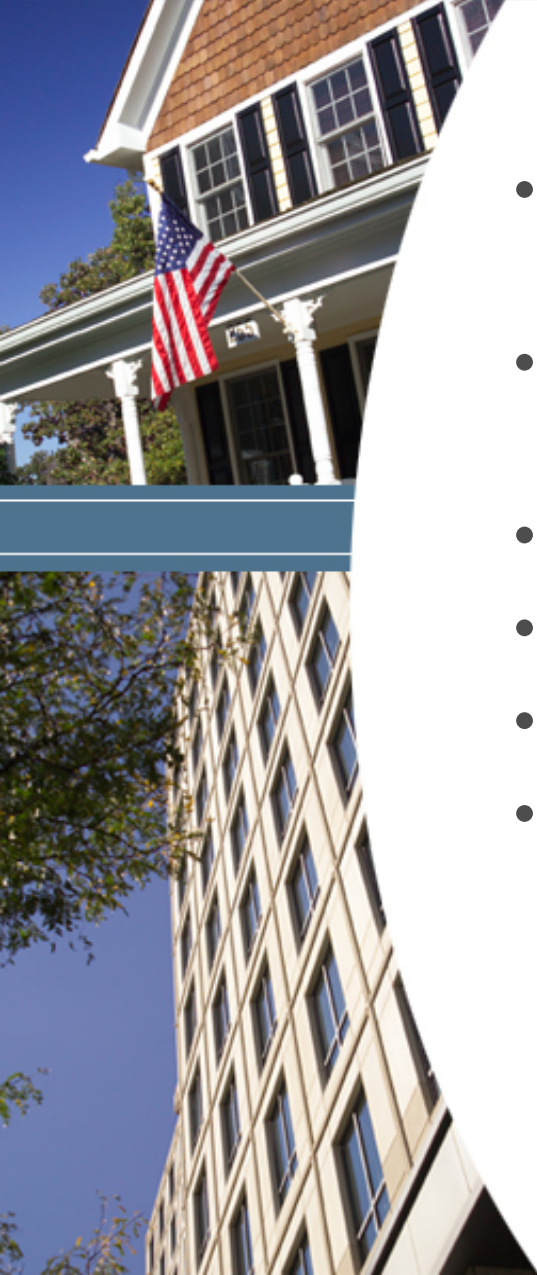
LTV/CLTV	Mid 600-Low 700	Low 600 – Mid 600	Low 600
91%-100%	M	H	>H
81%-90%	L	M	H
≤ 80%	L	L	<H*

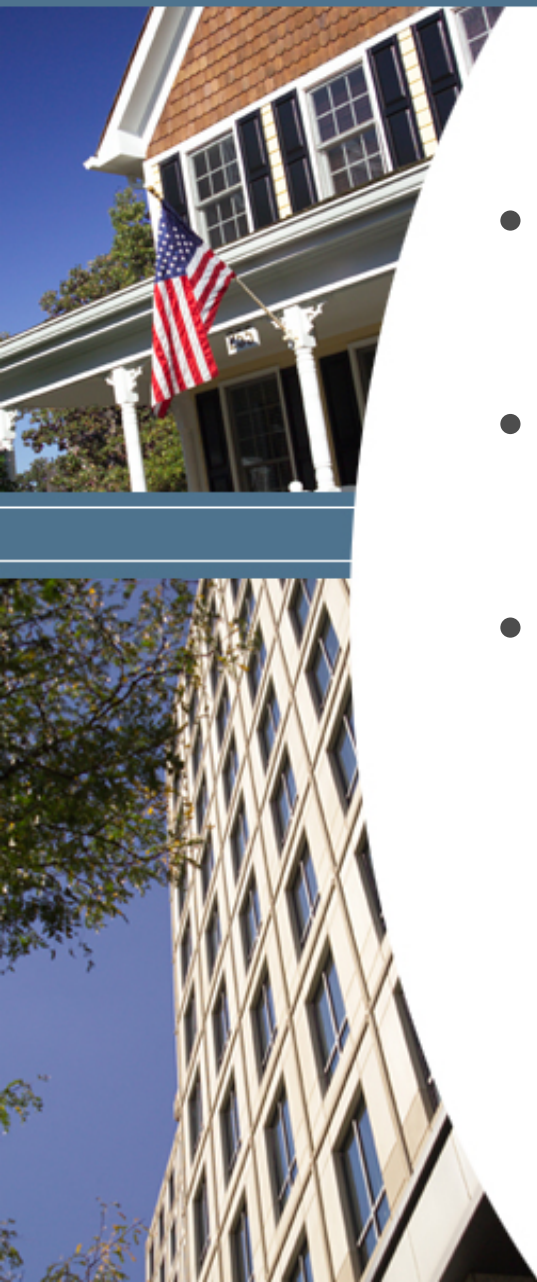
** “A customer with a representative credit score in the low 600’s will usually represent a high primary risk regardless of credit score”*



Credit Score:				
Low 600	Moderate/High	Slightly High	640/95 High	Significantly High
Mid 600	640/80 Moderate	Marginally Moderate	Slightly High	Significantly High
High 600	680/80 Marginally Low	Moderate/low	680/95 Moderate	High
Low 700	Low	Low	Moderate/Low	Moderate
Mid 700	750/80 Significantly Low	Low	750/95 Low	Moderate/Low
LTV/CLTV	≤ 80%	81% - 90%	91% - 95%	96% - 100%

Contributory Risk Factors

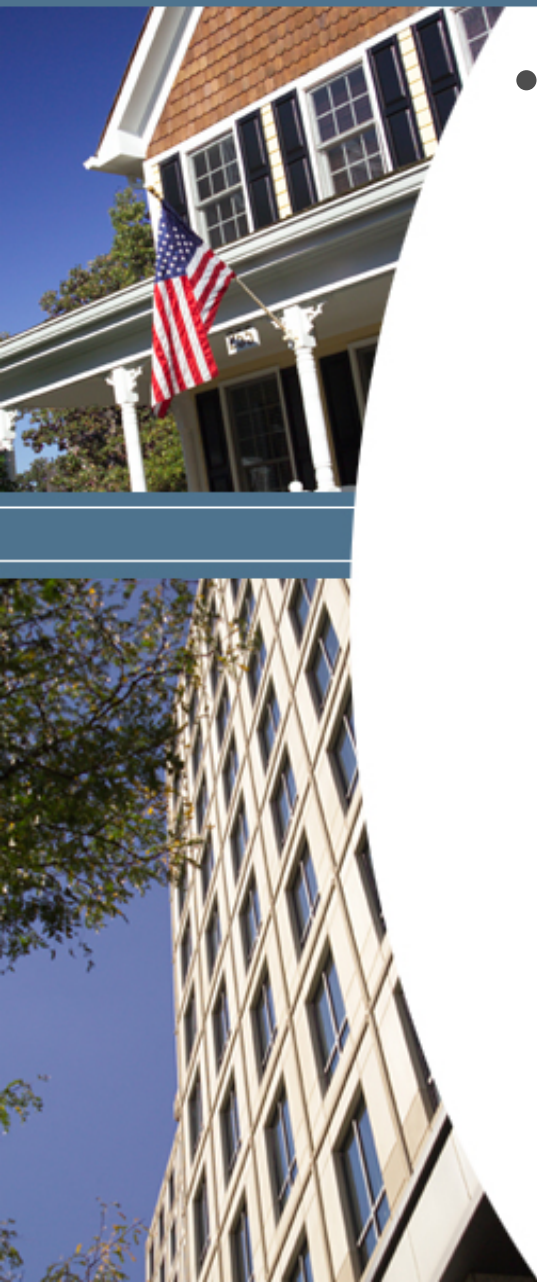
- 
- Liquid financial reserves
 - Employment classification
 - Mortgage term
 - Product type
 - Type of Property
 - Transaction Type
 - Presence of Co-Borrowers
 - Total DTI
 - Previous mortgage delinquency
 - Prior bankruptcy or foreclosure



- Satisfies Risk
 - » 2-4 Months
- Decreases Risk
 - » \geq 12 Months
- Significantly Decreases Risk
 - » $>$ 22-30 Months

- Increases Risk
 - » \leq One Month

How many months of reserves does it take to offset another layer of risk?

- 
- Satisfies Risk:
Salaried
 - » Include paid on commission
 - » Self employed but business has no debt or liabilities and income is insignificant to qualifying.

 - Increases Risk:
Self Employed

What is the REAL risk with a self employed borrower?

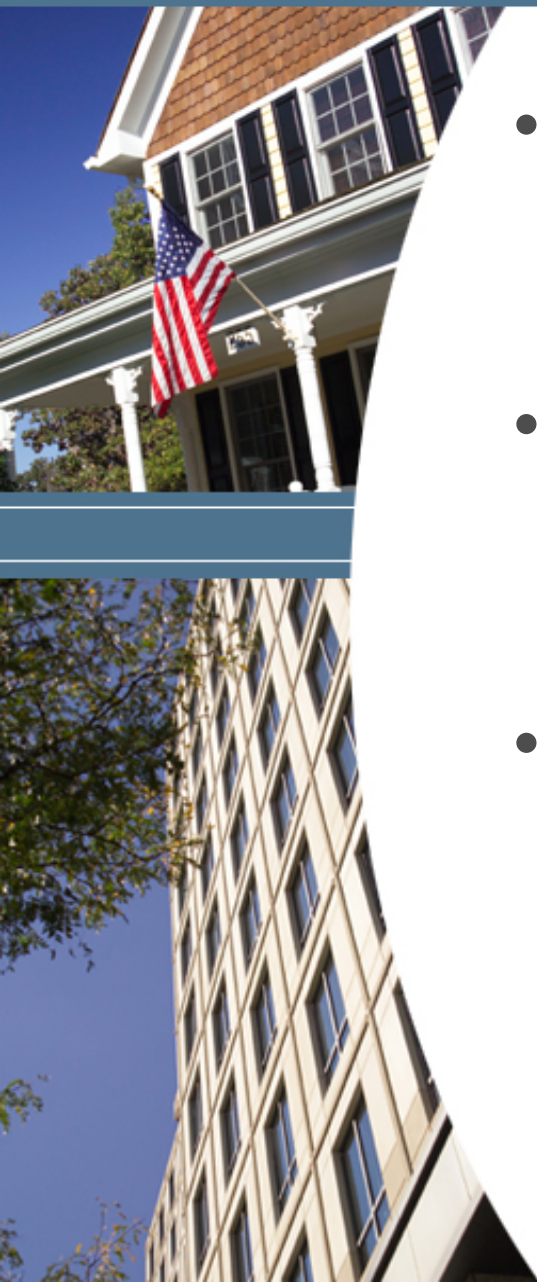


Mortgage Term

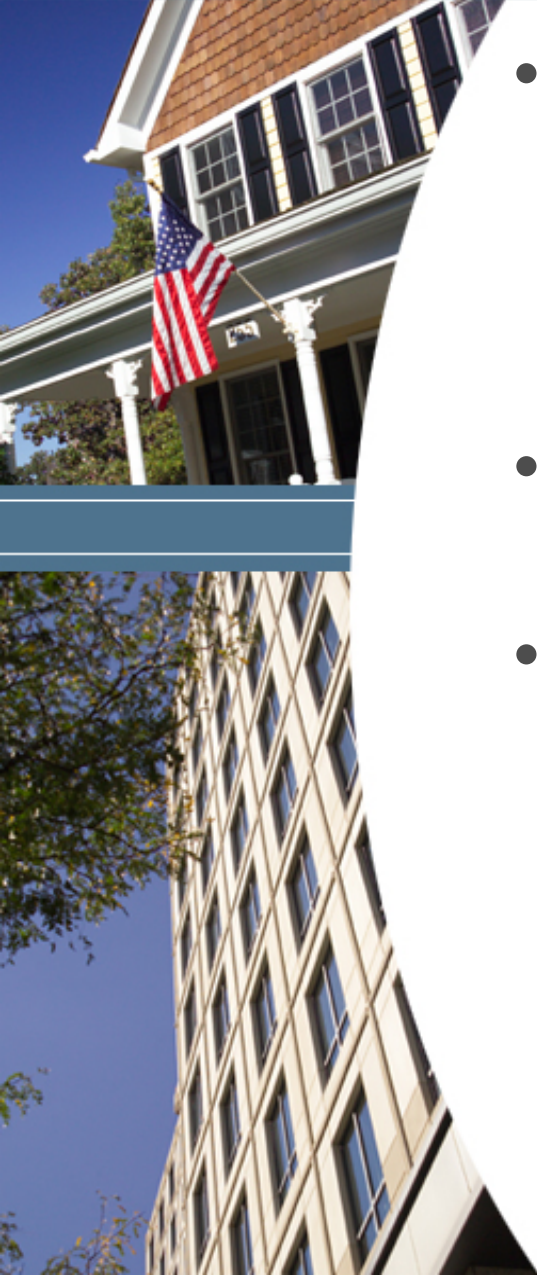
- Satisfies risk:
 - » 25 or greater term
- Decreases risk:
 - » ≤ 20 years

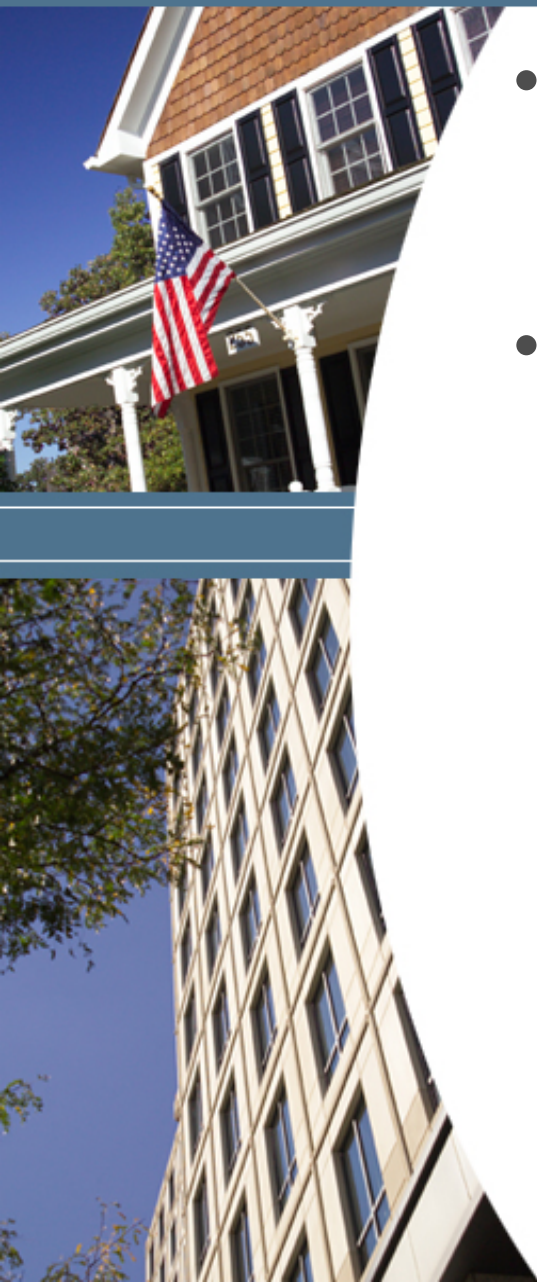
Product Type

- Satisfies risk:
 - » Full amortizing fixed rate mortgage, fixed payment at least 3 yrs.
- Increases risk:
 - » Balloons,
 - » Temp. Buydown
- Significantly increases risk:
 - » ARMS adjusting ≤ 1 yr.

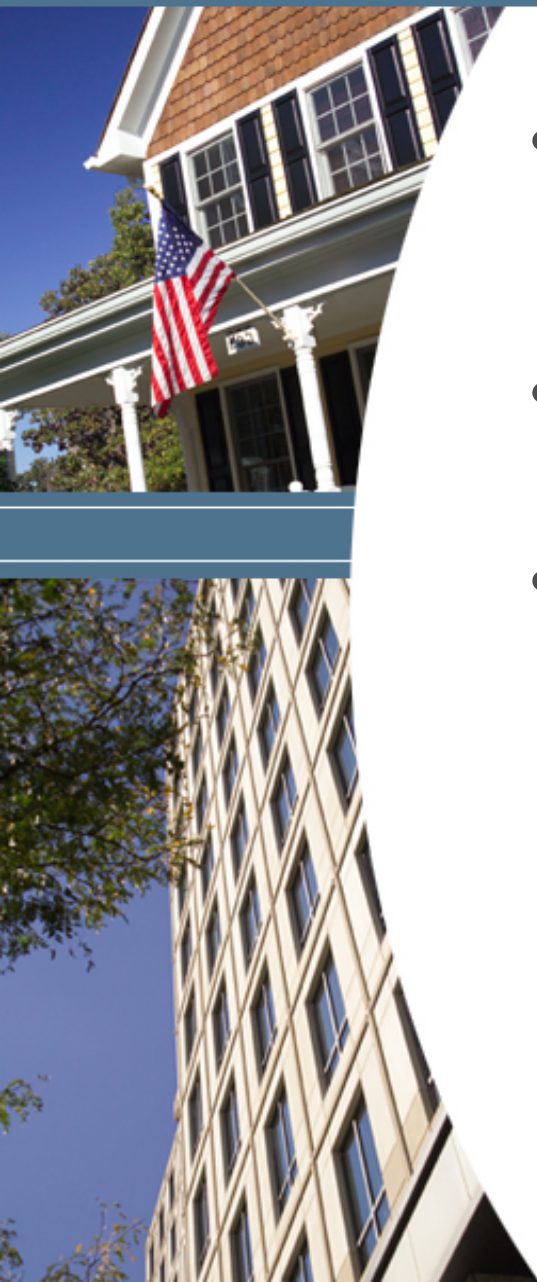


- Satisfies risk: SF
 - » Not: a condo, co-op or manufactured house
- Increases risk: 2 family or condo, co-op or manufactured house
- Significantly increases risk: 3-4 unit is the highest degree of risk over all other contributory risk factors.

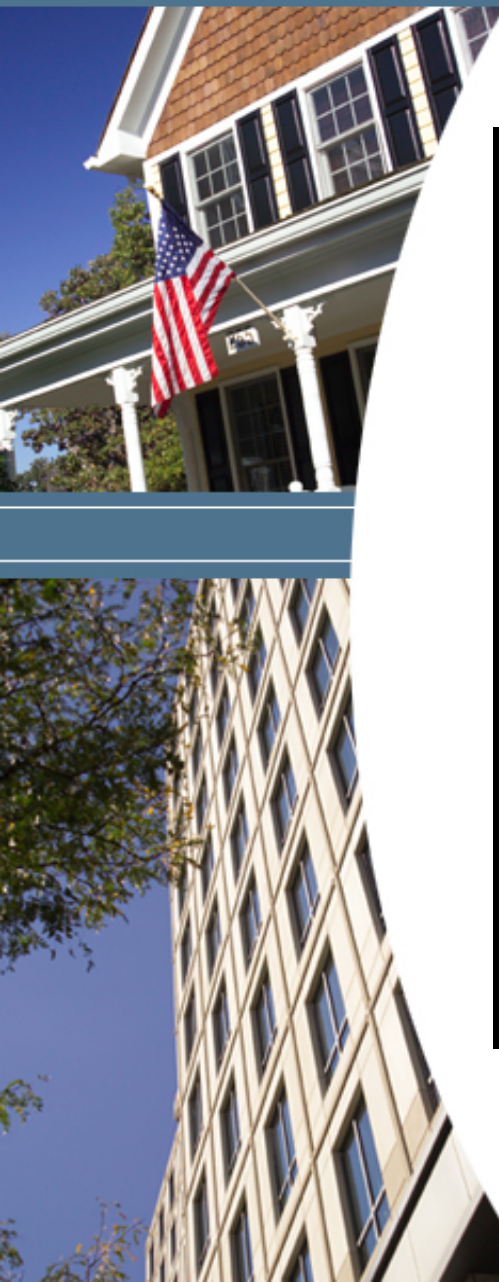
- 
- Satisfies risk:
 - » Purchase
 - » Refinance where the new loan amount is a minimal increase from the existing UPB (not including second liens!)
 - Decreases risk:
 - » New mortgage is a modest decrease in the UPB
 - Significantly decreases risk:
 - » New mortgage is 10% less than existing UPB



- Increases risk:
 - » New mortgage is 10% above the existing UPB.
- Significantly increases risk:
 - » New mortgage approaches or exceeds 20% above the existing UPB.

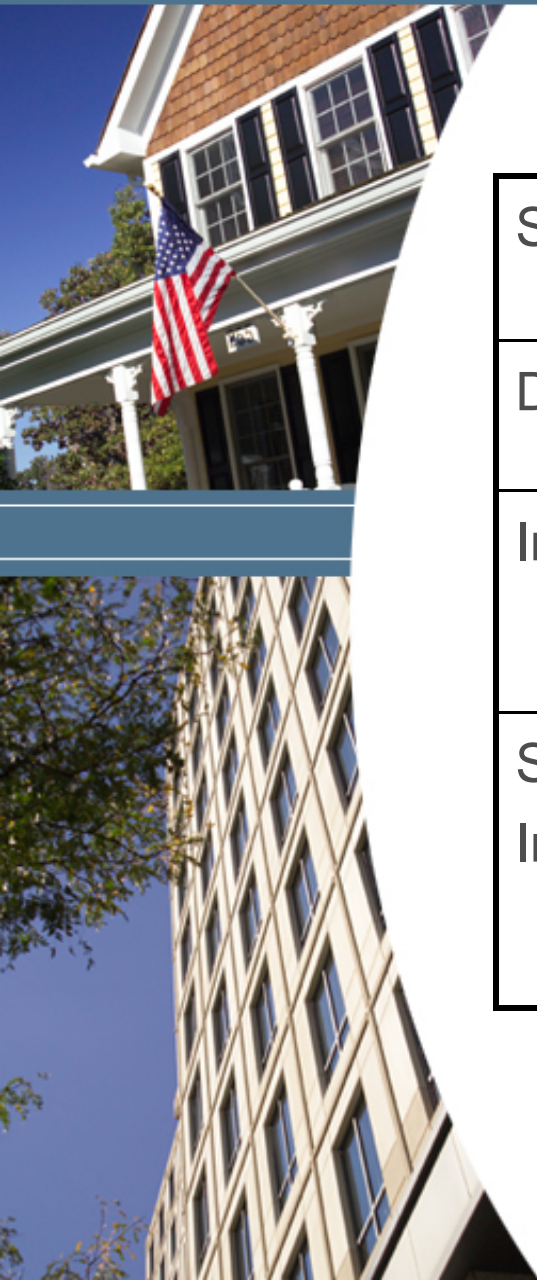


- Satisfies risk:
 - » CB credit score is representative score used on the loan or close to it.
- Decreases risk:
 - » CB representative score is upper 600 range
- Significantly decreases risk:
 - » CB representative score is 700+

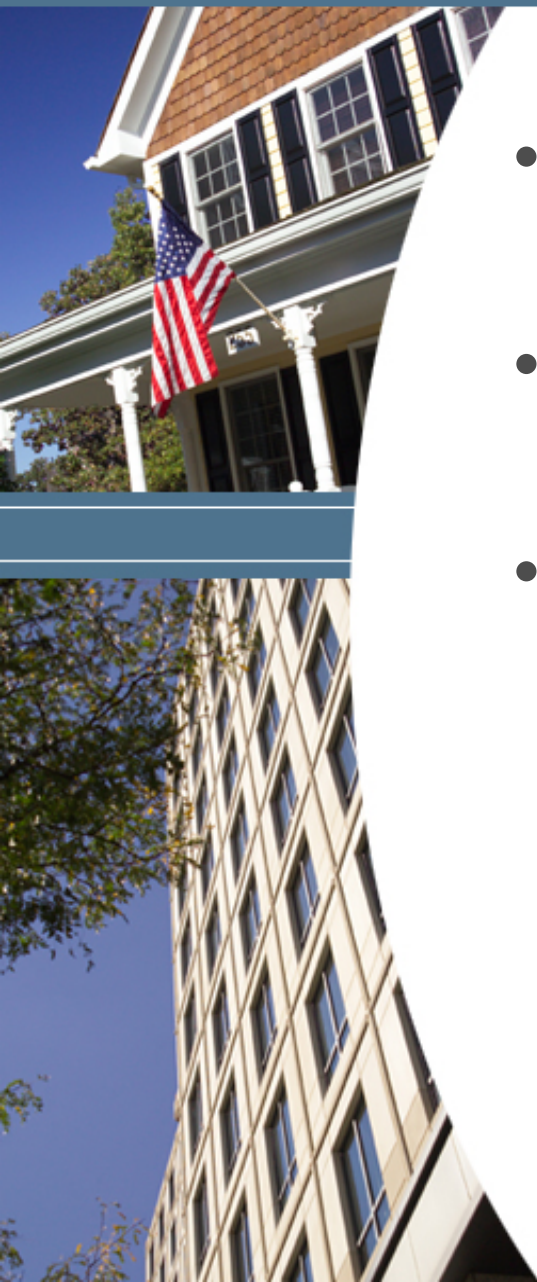


Satisfies Risk	Mid 30% range
Decreases Risk	Mid 20% range
Significantly decreases risk	10% or less
Increase risk	Mid 40% range
Significantly increases risk	Greater than 45%

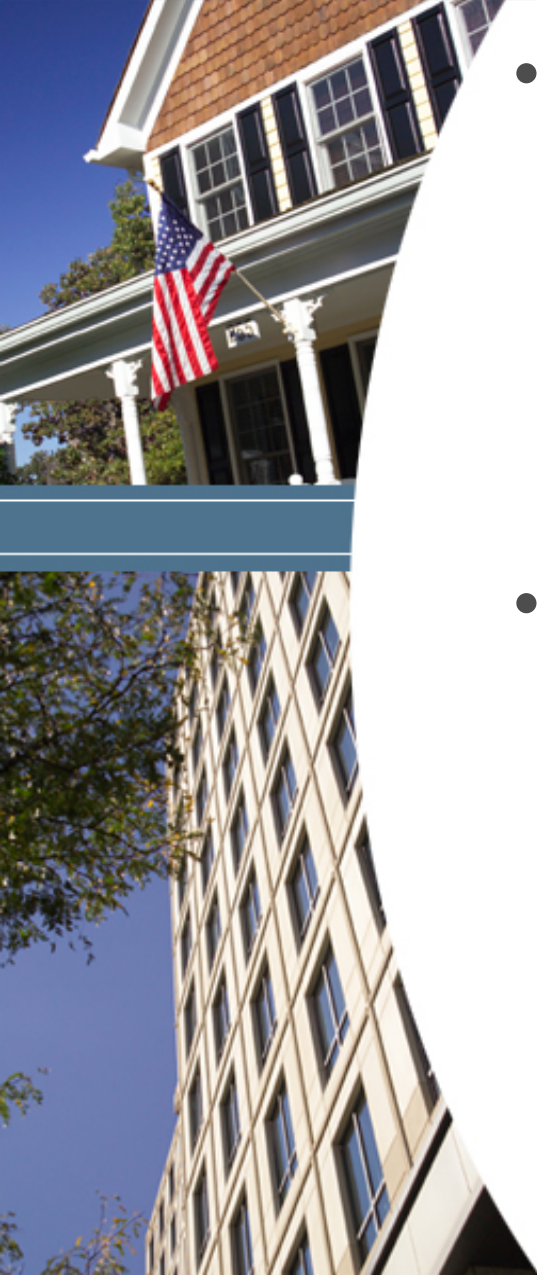
Previous Mortgage Delinquency



Satisfies Risk	1x30	13-24 months
Decreases Risk	0x30	Last 24 months
Increases Risk	1x30	Last 12 months
Significantly Increases Risk	2x30	Last 24 months OR 1x60 or 1x90 last 30 months

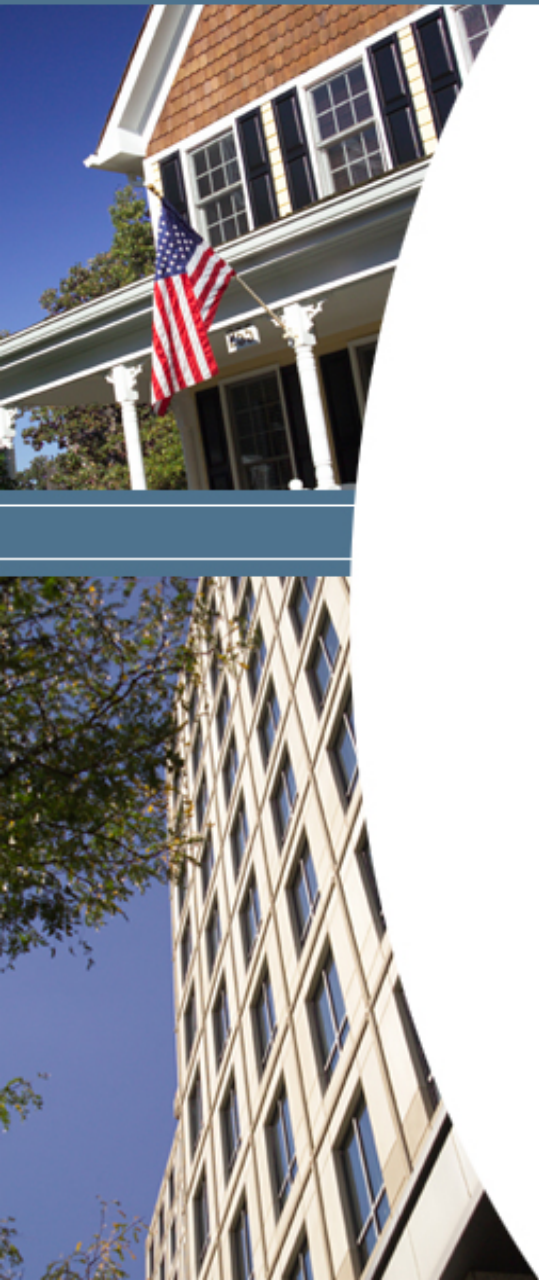


- Increases risk if either occurred in the last seven years!
- 4 or more years is a marginal increase in risk
- Less than or equal to three years is rated a significant increase in risk.

- 
- Underwriting was re-defined by:
 - » Automated underwriting
 - » Wholesale lending
 - » Increase in fraud
 - » Loan origination systems

 - Are underwriters still ‘the gatekeeper’?
 - » Product suitability
 - » Regulatory compliance
 - » Repayment risk

Thank You!



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Old Mortgage Hags