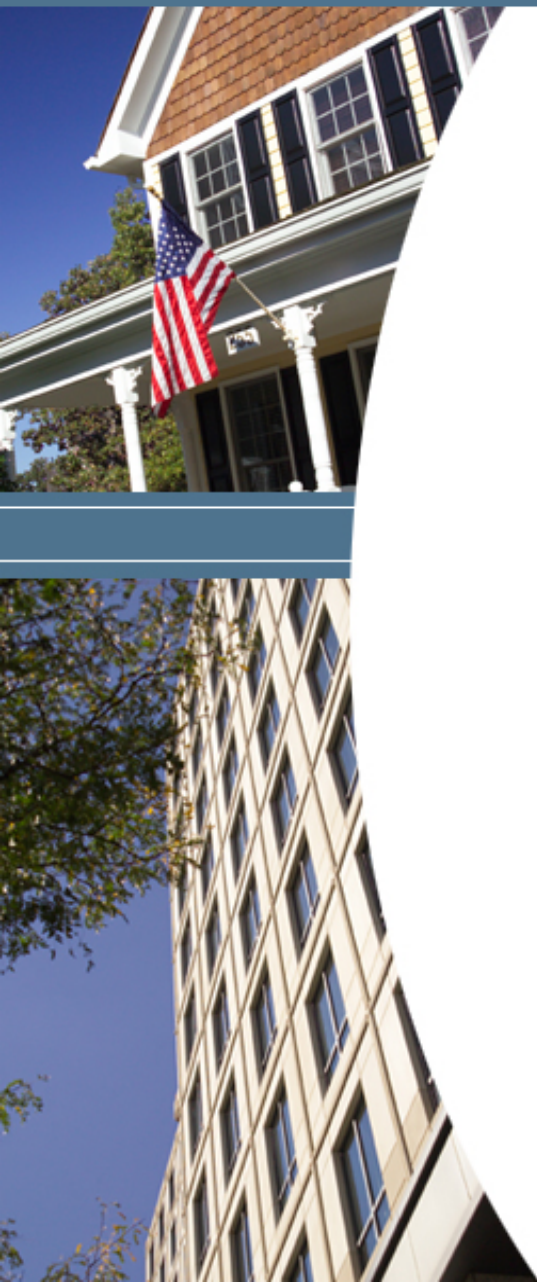




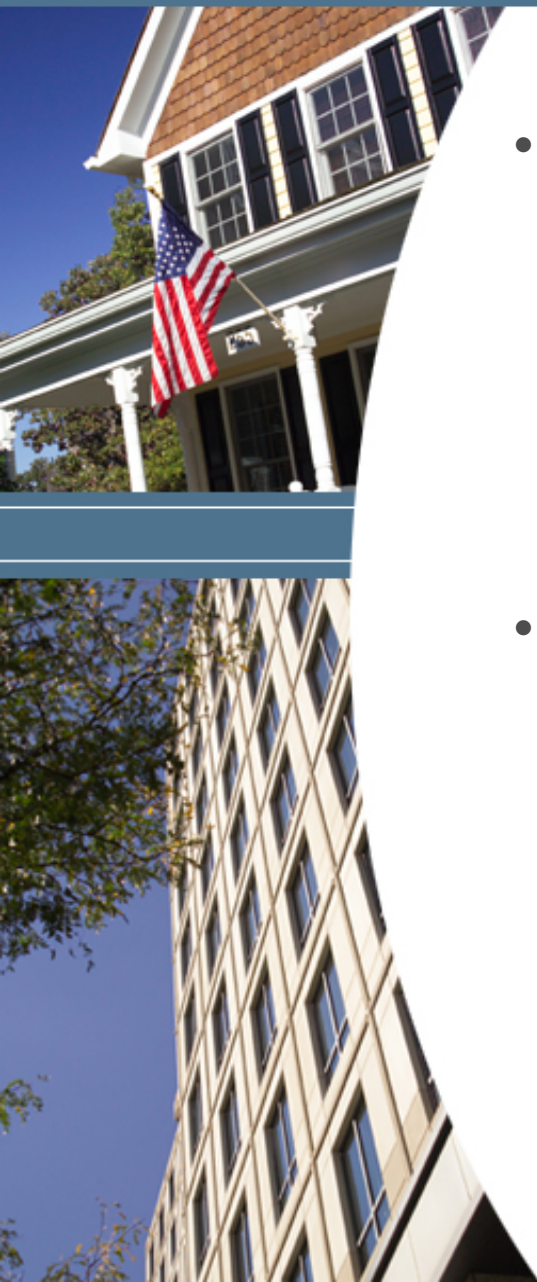
Data Elements – High-Risk Underwriting

Lisa Binkley

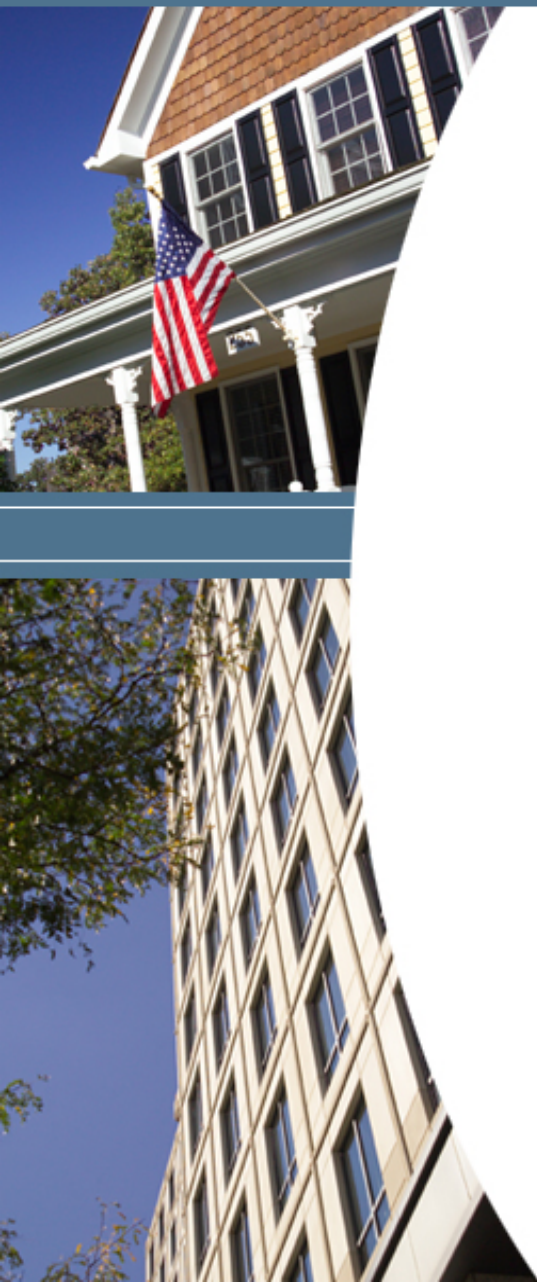
Rapid Reporting, A Verification Company



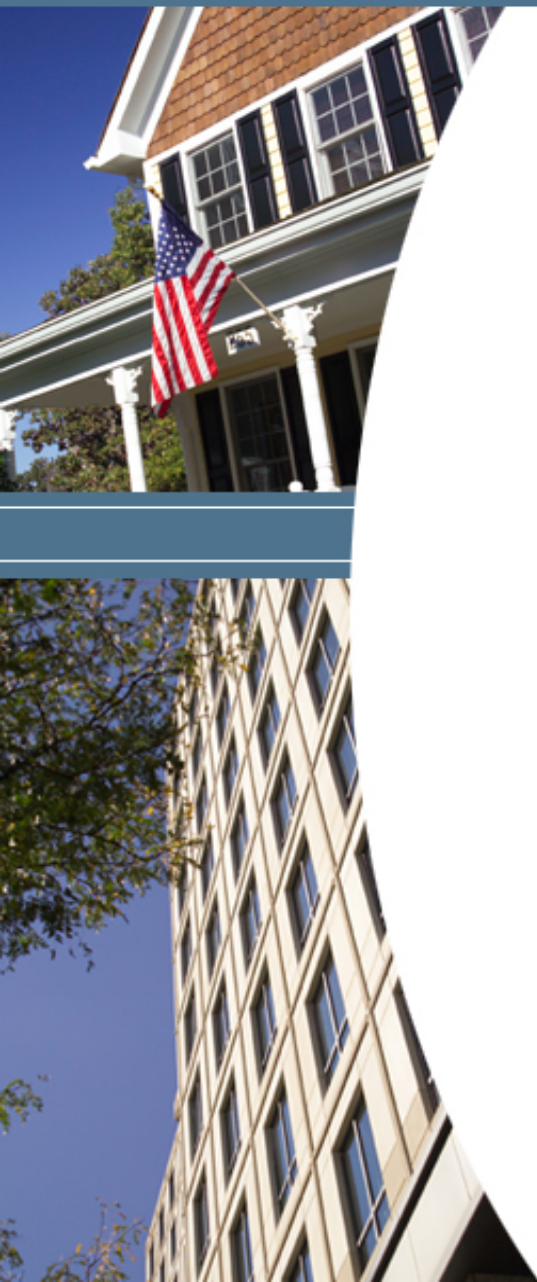
- Understanding risk
- What drives your risk
 - » The data
 - » Putting it together
- Process flows
- Underwriter data needs
- Data supports risk underwriting
- Customer risk
- Examples of corrective actions
- On-going assessment



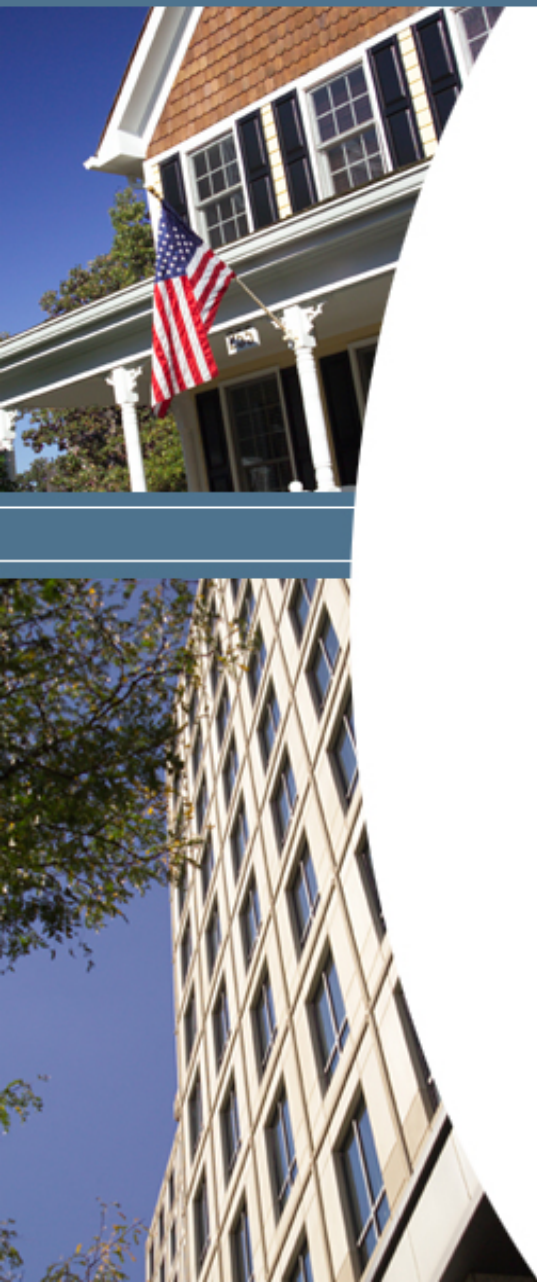
- Different companies have different risk determined by
 - » Who you do business with
 - Retail or wholesale
 - Correspondent
 - » Your product line or allowed parameters
 - » Your risk appetite
 - » Your level of responsibility or recourse
- The current lending environment
 - » Boom or doom
 - » Interest rate sensitivity
 - » Economic factors



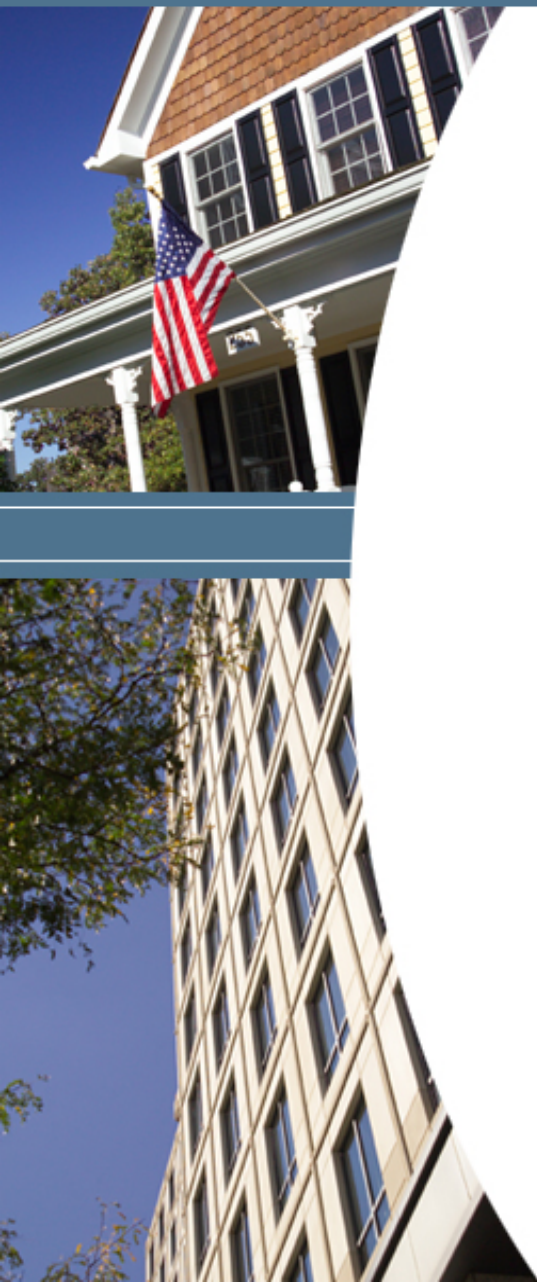
- Market Data
- External Data – Investors, MI companies, Agencies
- Borrower demographics and appetite
- Internal Data
 - » First payment defaults
 - » Repurchase requests
 - » Early payment defaults
 - » Overall performance data by product, region, branch, customer
 - » Broker/Customer loans
 - » Programs and Doc Types
 - » Fraud loans
 - » Foreclosed loans
 - » Pre-Funding reviews



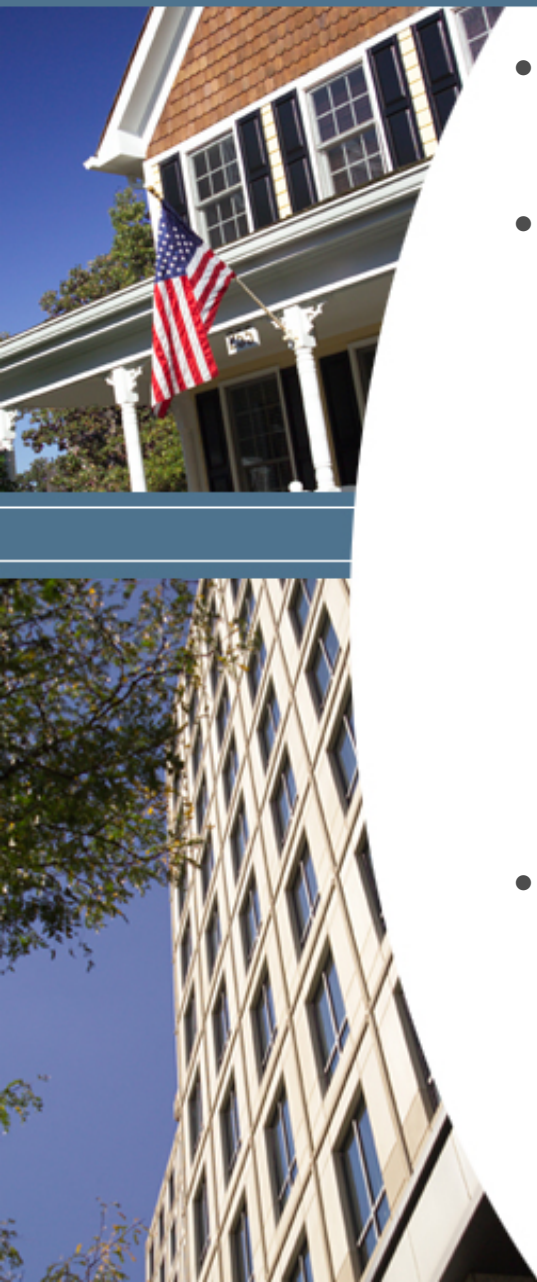
- Wholesale/Correspondent originations
- Occupancy
- Documentation type
- Financial contribution to property or transaction
- Employment/Income
- Non-arm's length
- Assets not present
- Identity/Credit
- Transaction type
- Property
 - » Value
 - » Comps
 - » Subject



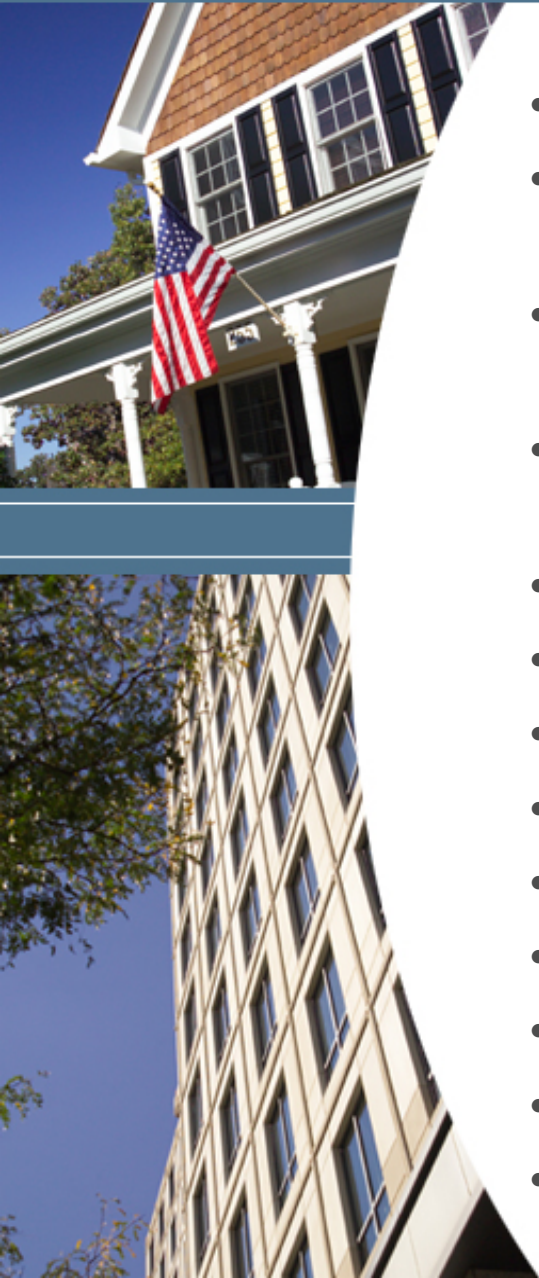
- Underwriters – Internal
- Pre-funding QA – Internal or External
- Property data reports – External
- Borrower data reports – External
- Public records – Fee or Free
- Internet searches – Fee or Free
- Data mining – Internal
- LOS data - Internal
- High-risk checklists - Internal
- Appraisal checklists - Internal
- AVM threshold variants - Internal
- Customer monitoring and scoring – Internal
- Industry watch lists and hot spots



- Loan to value
- Purchase or refinance
- DTI
- Credit Score
- Cash out
- Occupancy
- First-time homebuyer
- Broker code
- Program
- Documentation type
- External reports and/or scoring
 - » Property
 - » Identity
- Zip codes
- Appraiser name
- Self-employed or Type of income



- In a perfect world you could use your LOS to assign risk to more skilled associates or risk queues
- If then statements are the logic to assign loans
 - » If credit score less than 660 and first-time homebuyer and self-employed
 - » If cash-out and AVM 10% below appraised value
 - » If occupancy equals non-owner and subject property state does not equal borrower residence state
 - » If subject property zip code equals fraud zip code
 - » If DTI exceeds maximum program DTI and transaction type equals purchase and first-time homebuyer or self-employed or occupancy equals non-owner
- The loans who do not meet these types of criteria would have less risk to the organization



- Known Fraud Areas – Zip Codes/MSAs
- Recent foreclosure sale – purchase seasoning
 - » Significant Price Increase
- Out of area investors
 - » Typically more than 1 property
- Significant cash-out/Large Seller Proceeds
 - » Is value supported
- > or = to 100% ltv
- No Realtors or corporate sellers
- First-time homebuyers or First-time investors
- Non-Arm's Length
- AVM variants
- Credit alerts
- Numerous credit inquiries
- Multiple loans to inexperienced investors
- Cash-out

High-Risk Checklist (see handout)

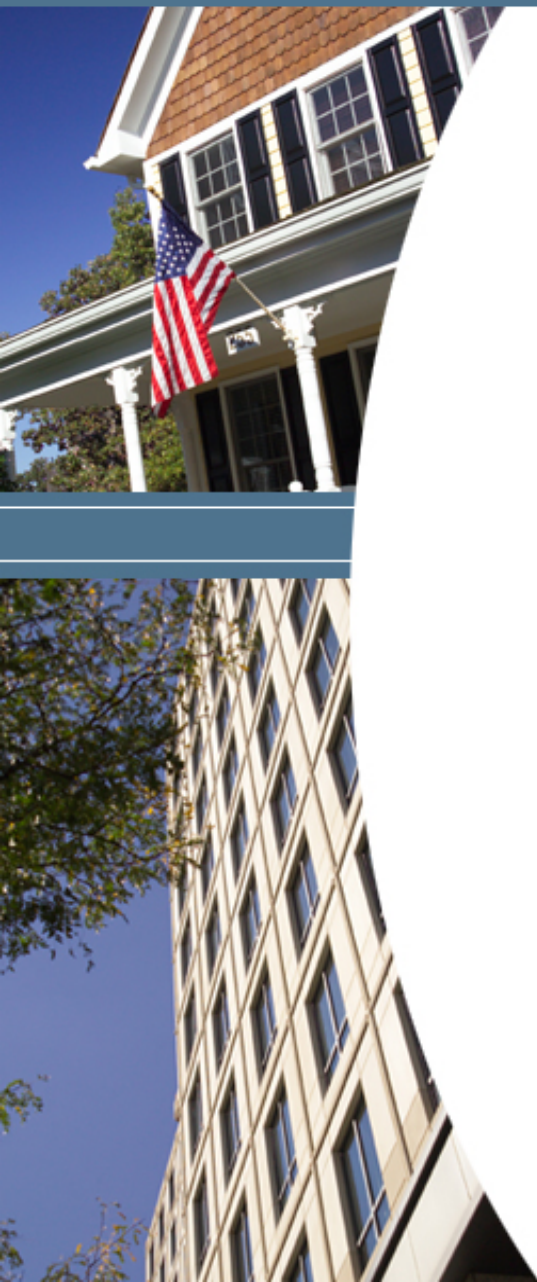


High Risk Checklist.pdf - Adobe Reader

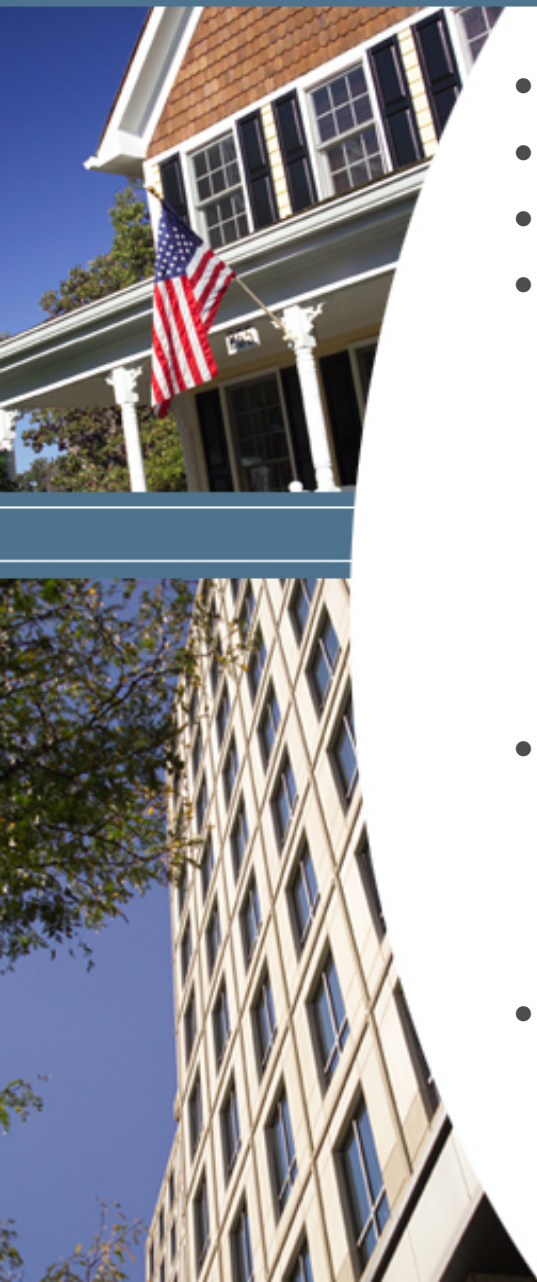
File Edit View Document Tools Window Help

1 / 1 75% Find

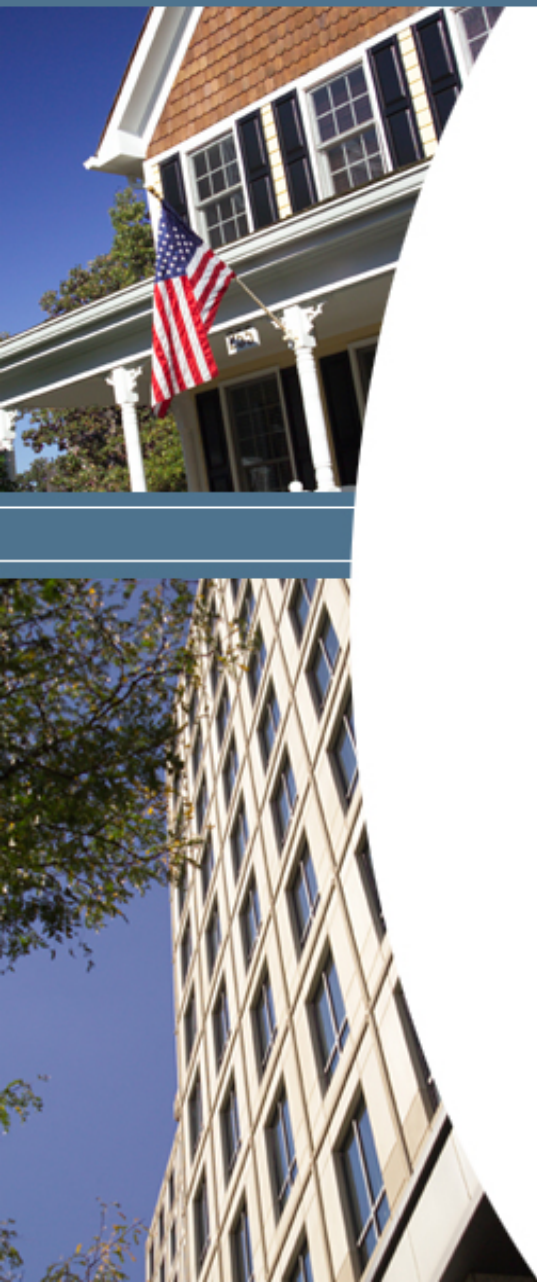
High Risk Factor	Tools/Process	Factor Risk Rating		
		Low	Medium	High
1.) Incomplete/Corporate/LLC Sellers	<ul style="list-style-type: none"> Do you have policy State web sites Verify company participants 			
2.) Sales prices not disclosed in public records	<ul style="list-style-type: none"> Values ranges in AVM or property data report Realtor.com to demonstrate listing values in the area 			
4.) Owner does not match the title report, purchase agreement, external resources or appraisal	<ul style="list-style-type: none"> Chain of title Public records AVM County web sites 			
5.) Property sold or transacted within 12 months	<ul style="list-style-type: none"> Property Data/Chain of title Purchase seasoning QA Pre-funding review Appraisal 			
6.) Documents executed by POA	<ul style="list-style-type: none"> Must specific 			
7.) Significant seller proceeds	<ul style="list-style-type: none"> Review HUD-1 Verify lien amounts/Review Payoffs QA Pre-funding 			
8.) Incomplete or Assigned Purchase Contract	<ul style="list-style-type: none"> Assigned Exception Fully executed Seller acknowledgement 			
9.) Stand-alone documentation such as a VOE or VOD	<ul style="list-style-type: none"> WVOE Condition for paystubs and bank statements Employer or bank validation through web sites 			
10.) SSN discrepancy between documents (credit report, paystubs, W2s, tax returns, etc)	<ul style="list-style-type: none"> Interview Borrower using credit header information SSA validation 			
11.) Credit report does not match for address, employment	<ul style="list-style-type: none"> Cross check with documents in file WVOE or WVOE 			
12.) Credit profile not consistent when compared to earnings	<ul style="list-style-type: none"> WVOE Cross check with documents in the file 			
13.) New construction unknown length of contract	<ul style="list-style-type: none"> Appraiser has to address on form 			
14.) Paying off Private Liens (Individuals or LLCs)	<ul style="list-style-type: none"> Verify with public records Review payoff from closing agent Review HUD-1 for unusual payouts or high payouts 			
15.) Occupancy is not supported by application, appraisal, or purchase agreement	<ul style="list-style-type: none"> Review documents for address Evidence borrower occupies ie. Utility, cable bills 			
Risk Measurement Totals:				
Checklist Key: Yes is the negative answer and measured by low, medium or high risk by the underwriter or closer.				
What is the company threshold for risk?				
UW Manager sign off required?				
Is there any automatic decline?				
Threshold for automatic pre-funding review?				

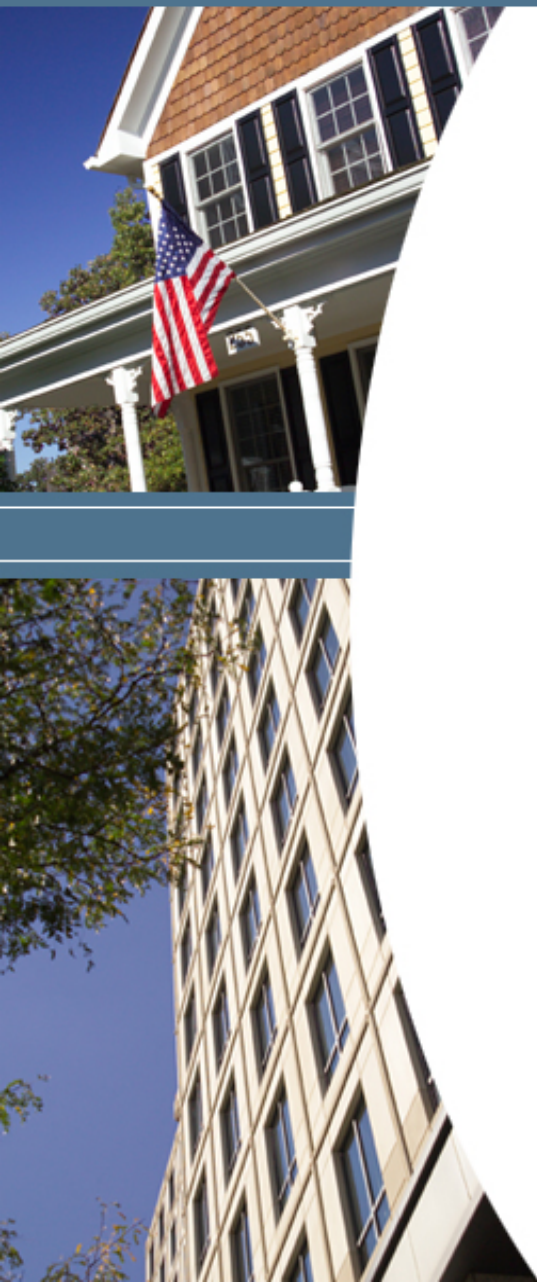


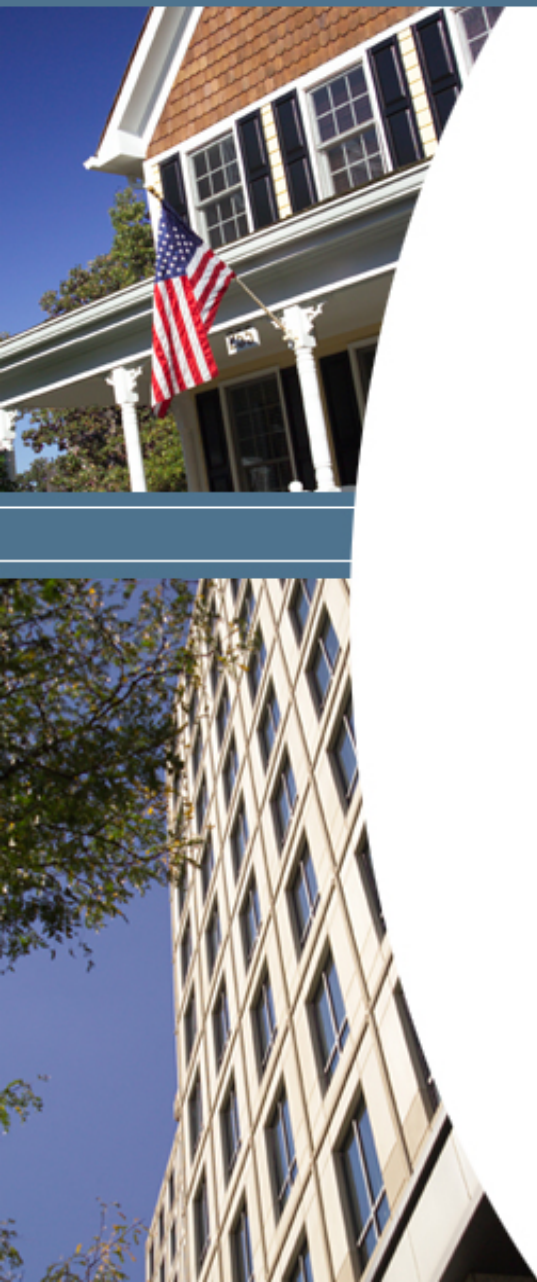
- AVM supports value
- Standard Transactions
 - » Previous sales date > 12 mos
 - » Arm’s Length (LOS may not identify these)
 - » Rate & Term
 - » Outside fraud areas
 - » Demonstrated quality originators
- Independent property and borrower data support the application or file information
- Scores or Variants (ID & Property reports) do not meet or exceed set thresholds
- Bonus!!! These are able to be underwritten by less skilled associates

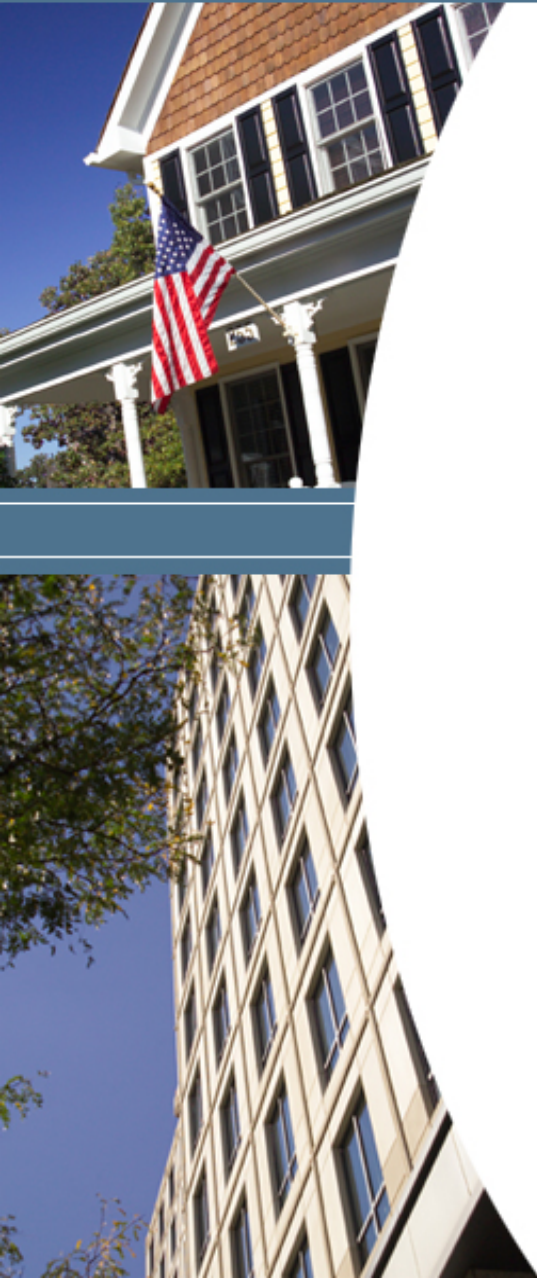


- Exceeds AVM thresholds
- Independent data does not match file data
- Known fraud area or product with propensity for fraud
- High-Risk factors
 - » Non-prime credit
 - » Max financing or max DTI
 - » Self-employed
 - » Cash-out
 - » Multiple investment loans
 - » First-time investors
- Transactional risk factors
 - » Non Arm's Length
 - » Known fraud areas
 - » Recent foreclosure – no seasoning
- Need to be handled by seasoned underwriters

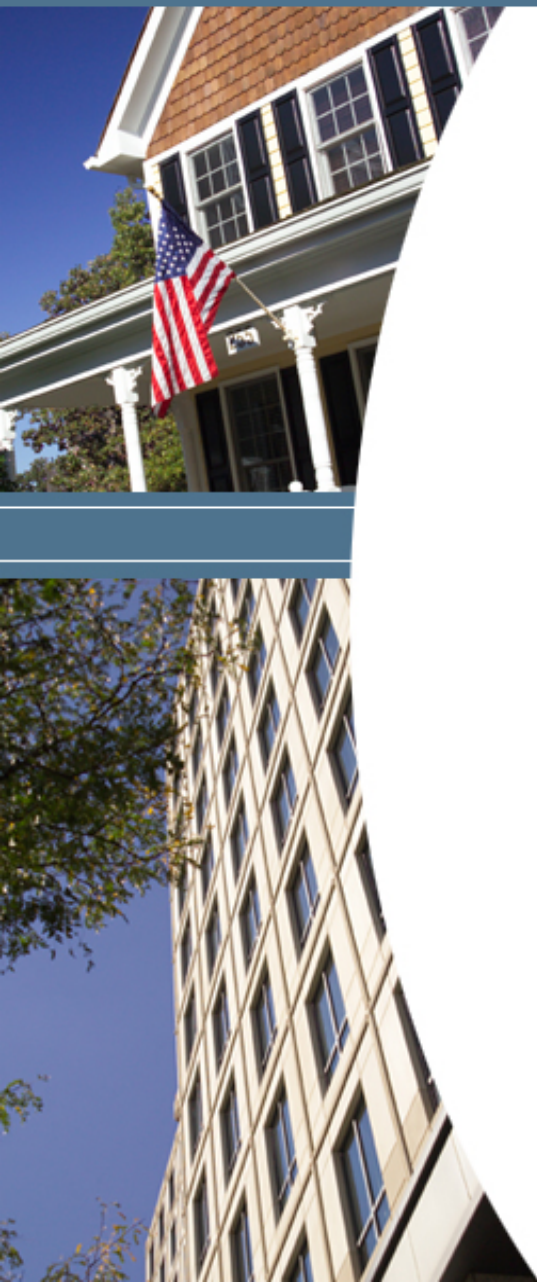
- 
- Property Data Including...
 - » Transactions
 - » Market area foreclosures & NODs
 - » Subject and comp data with sales information
 - » Median and average values
 - » Ownership
 - » Property details
 - » Nice to haves....
 - Maps
 - Photos
 - Assessments

- 
- Credit report
 - Identity report
 - » OFAC
 - » Death master
 - » Addresses found
 - » AKAs and FKAs
 - » Additional SSN found
 - » Additional identities found
 - » SSN validity
 - » SSN match or no match with Social Security Administration

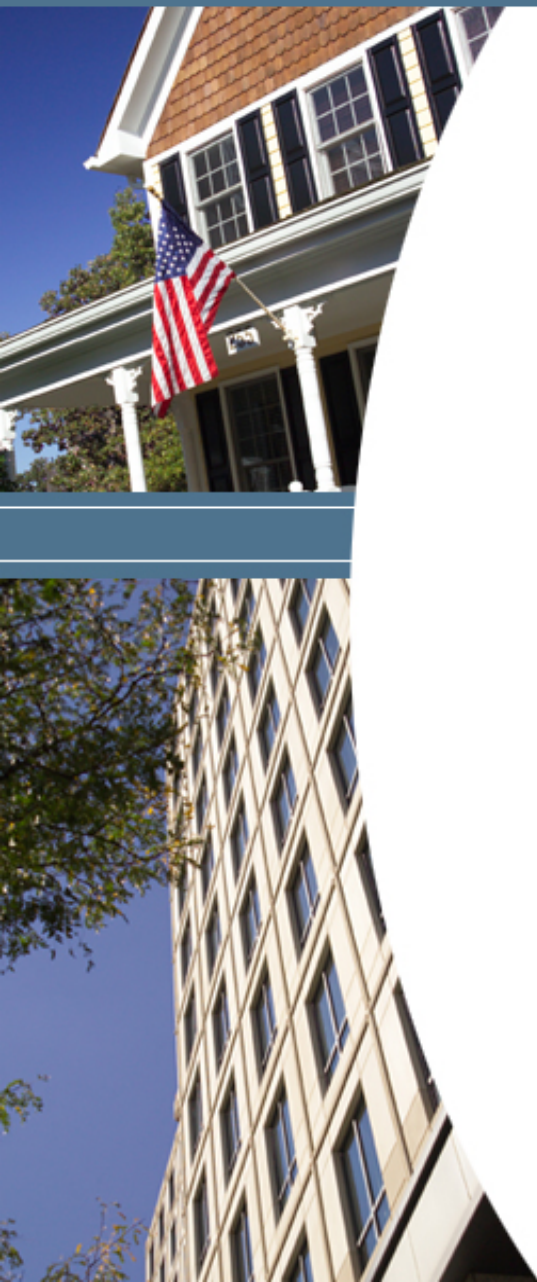
- 
- 16,000 EPD loans red flags present at origination
 - » Program risk (stated, 100% Ltv, non-prime)
 - » Credit profile not matching program (high credit score, non-prime product)
 - » Geographic risk
 - » Broker risk
 - » Appraisal didn't match the area or neighborhood
 - » Same employer for multiple apps
 - » Income too high for area
 - » Assets – did not match bureau characteristics
 - » Non arm's length – borrower works for broker
 - » Unreasonable commute



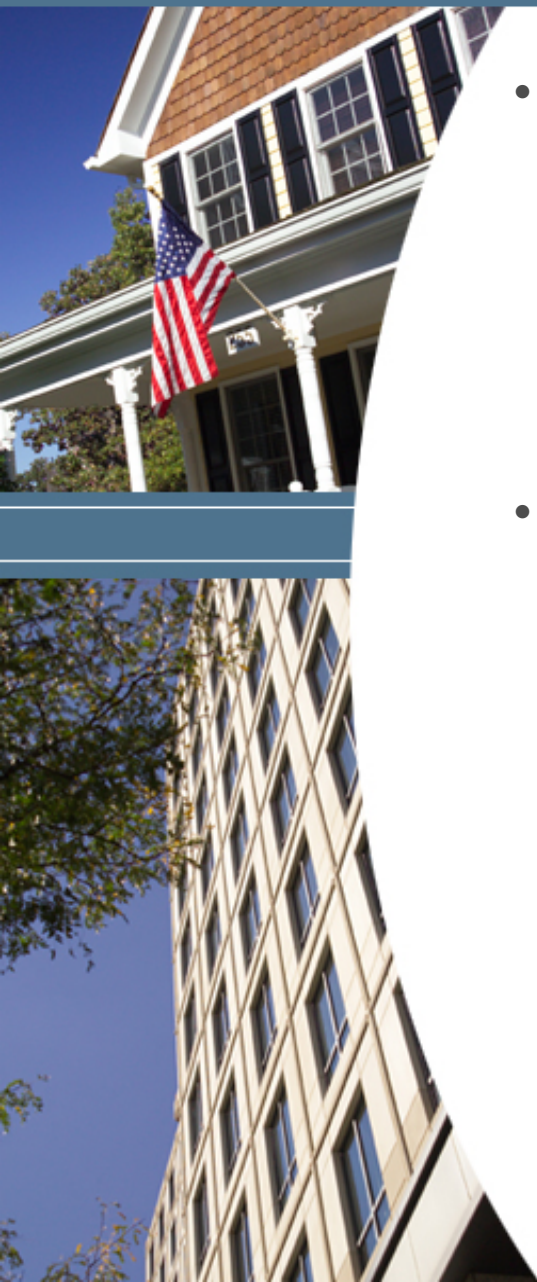
- Appraisal didn't match area or neighborhood
 - » Pull AVMs or Property Data reports
- Same employer multiple apps
 - » Build queries for employers
 - » Match to applications, brokers, borrowers
- Income too high for area
 - » Verify income with the IRS
- Geographic Risk
 - » Implement pre-funding procedures
- Non Arm's Length – broker employee
 - » Restrictions
 - » Verifications



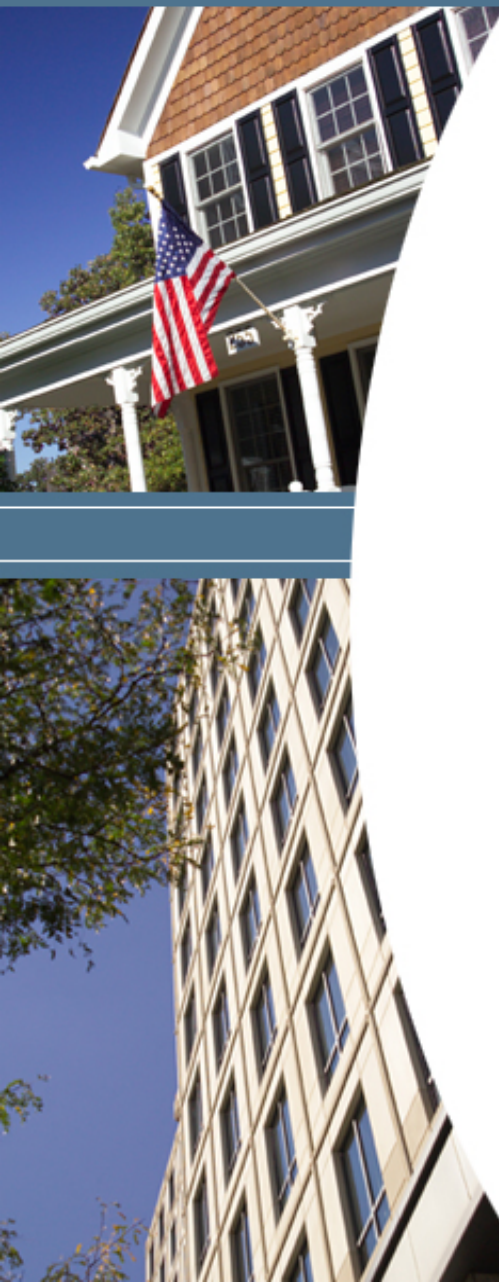
- Changes in your applications
 - » From 30% stated income to 70% or 80%
 - » Occupancy has changed
 - » Product mix changed from 80% A and Alt A to 75% Non-Prime
- Increased defaults and repurchase activity
- First payment defaults (get rid of the noise)
- Monitor external fraud activity
 - » Pay attention and enhance pre-funding sampling and activities
- Best to be pro-active and monitor as the change occurs than after



- Learn from your own data to promote
 - » Proper use of tools where & when
 - Automated or Manual
 - Recognizing red flags
 - Independent verification
 - Does it make sense
 - False positives
 - » Proper training is key
 - Understanding results
 - Communicating findings
 - » Ensure staff knows how to report, how to follow up and follow through



- Determine which customers are true partners
 - » Where is the majority of your broker risk; with the broker, appraiser or account executive
 - » Possible incentive program
 - » Define benchmark requirements for brokers regarding performance and don't be afraid to eliminate non-performers
 - » Data supports that brokers who submit higher number of stated loans were more likely to have bad performance and be involved with fraud
- Determine any weaknesses in your programs, policies and processes
 - » Are you adversely selected by the broker community
 - » Monitor new lending areas, new personnel
 - » Do you carry a disproportionate amount of inherent risk



Report ID: QC001
 Mon Mar 27 2006 8:04:04 AM

Big Bank Lending Inc.

Broker Risk Assessment Summary Report

Broker Profile			
Broker Name(ID)		Origination Doc Code	
Broker Address	2121 Main St. Anytown, USA	Approve Date	11/25/1998
Account Executive	Honest, Bobby	Inactive Date	
Broker Contact(Owner)	JOHN LOAN([Owner])	Broker Status	3
Branch Name(ID)	Swingtown	Priority Status	E

Pre-Funding Reviews (All Products)											
Year	Yes	Misrep	%	No Misrep	%	Inconclusive	Misrep	%	Total Reviewed	Funded Inconclusive	%
1999	0		0.00%	5	100.00%	0		0.00%	5	0	0.00
2000	0		0.00%	4	100.00%	0		0.00%	4	0	0.00
2001	0		0.00%	5	100.00%	0		0.00%	5	0	0.00
2002	1		12.50%	6	75.00%	1		12.50%	8	0	0.00%
2003	0		0.00%	6	66.67%	3		33.33%	9	1	33.33%
2004	3		6.25%	39	81.25%	6		12.50%	48	3	50.00%
2005	8		36.36%	7	31.82%	7		31.82%	22	0	0.00%
2006	3		18.75%	8	50.00%	5		31.25%	16	5	100.00%
Total	15		12.82%	80	68.38%	22		18.80%	117	9	40.91%

Problem Loans, Repurchases, Unsaleable, PC Referrals(All Products)								
Year	Loss Amount	Pending	Pending Disposition	Repurchased	Rescinded	Resolved w/o Repurchase	Unsaleable	Total
2001	\$0.00	0	0	0	0	1	0	1
2002	\$22,762.97	0	0	1	0	0	0	1
2003	\$58,697.36	0	0	6	0	0	0	6
2004	\$0.00	0	0	2	0	0	0	2
2005	\$0.00	0	0	0	0	0	1	1
Total	\$81,460.33	0	0	9	0	1	1	11

EPDs - Loans 90 days DLQ in 12 months								
Year	Pending Review	Misrepresentation	PaidOff	Inconclusive	Servicing	SubsequentEvent	Acceptable/Unknown	Total
2001	0	0	0	0	0	1	0	1
2003	0	4	0	0	0	2	1	7
2004	3	1	0	1	0	2	0	7
2005	7	0	0	0	0	0	0	7
Total	10	5	0	1	0	5	1	22

Product	1998		1999		2000		2001		2002		2003		2004		2005		2006	
	Fund	Delq	Pcntg	Fund	Delq	Pcntg	Fund	Delq	Pcntg	Fund	Delq	Pcntg	Fund	Delq	Pcntg	Fund	Delq	Pcntg
EQ Line	0	0	0.00	0	0	0.00	0	0	0.00	1	0	0.00	0	0	0.00	0	0	0.00
Fixed 2nd	0	0	0.00	0	0	0.00	0	0	0.00	1	0	0.00	0	0	0.00	12	2	16.67
Non-Prime	0	0	0.00	1	0	0.00	2	0	0.00	1	0	0.00	5	3	60.00	5	0	0.00
Alt A	0	0	0.00	0	0	0.00	3	0	0.00	6	2	33.33	8	1	12.50	5	0	0.00
Alt A Plus	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	8	2	25.00	24	4	16.67
Non Jumbo A	0	0	0.00	3	0	0.00	3	0	0.00	17	0	0.00	12	2	16.67	14	0	0.00
Non Jumbo Plus	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	3	0	0.00	3	0	0.00
Jumbo	0	0	0.00	0	0	0.00	0	0	0.00	1	0	0.00	2	0	0.00	1	0	0.00
JumboExp	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	1	0	0.00	0	0	0.00
Jumbo Plus	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	8	4	50.00	8	3	37.50
107	0	0	0.00	0	0	0.00	0	0	0.00	10	1	10.00	11	4	36.36	16	0	0.00
107 Plus	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	6	3	50.00
Pay Option Arm	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	3	0	0.00
Total	0	0	0.00	4	0	0.00	6	0	0.00	37	1	2.70	34	6	23.53	74	11	14.86



Now go out there and think about risk.

Lisa Binkley, EVP Risk Strategy & Policy Development