

MBAA Quality Assurance Conference Opening Session



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The Evolution of Mortgage Banking

- A \$100,000 vehicle can be purchased in a matter of hours
-- a home loan still takes 30 - 45 days
- Technology allows underwriting and loan closings at faster rate
- Completed loan file still has same number of documents
- Still produce same amount of paperwork
- Our core processes remain burdensome and confusing

Today's Topics

- What are the long term effects of today's volumes?
- How does a company manage risks with these volumes?
- What do I expect from quality assurance compliance and risk management?
- How should quality assurance interface with production?
- What is different today versus ten years ago?
- Where is technology leading us?
- What do I worry about?
- What does the future look like through my eyes?

The Current Market



- 2003 projected by MBA at \$3.4 trillion
- 2003 will be the 7th trillion dollar market in last 11 years and the 6th trillion dollar market in a row
- Market expected to double in the next 6 ½ years to \$14 trillion

The Current Market Raises Questions

- Has the average quality per loan eroded due to enormous pressures on production personnel?
- Are we closing loans with higher percentages of missing conditions, greater errors and less attention to underwriting?

Absolutely!

Traditional Measures of Delinquencies

Year	Unemployment %	Delinquency %	Foreclosure %	Interest Rates %	Loan Volume
1982	10.8	5.7	.23	16.0	\$100 Billion
1992	7.4	4.3	.34	8.3	\$893 Billion
2002	6.0	4.5	.35	6.5	\$2.5 Trillion



Traditional Measures of Delinquencies

Year	Unemployment %	Delinquency %	Foreclosure %	Interest Rates %	Loan Volume
1982	10.8	5.7	.23	16.0	\$100 Billion
1983	8.3	5.7	.19	13.2	\$200 Billion
1984	7.3	5.8	.20	13.8	\$203 Billion
1985	7.0	5.7	2.2	12.4	\$289 Billion
1986	6.6	5.3	.26	10.1	\$500 Billion

Traditional Measures of Delinquencies

Year	Unemployment %	Delinquency %	Foreclosure %	Interest Rates %	Loan Volume
1992	7.4	4.3	.34	8.3	\$893 Billion
1993	6.5	4.1	.31	7.3	\$1 Trillion
1994	5.5	4.1	.33	8.3	\$768 Billion
1995	5.6	4.4	.33	7.9	\$639 Billion
1996	5.4	4.3	.33	7.8	\$785 Billion

Traditional Measures of Delinquencies

Year	Unemployment %	Delinquency %	Foreclosure %	Interest Rates %	Loan Volume
1996	5.4	4.3	.33	7.8	\$785 Billion
1997	4.7	4.3	.36	7.6	\$833 Billion
1998	4.4	4.2	.36	6.9	\$1.5 Trillion
1999	4.0	3.8	.29	7.4	\$1.3 Trillion
2000	3.9	4.5	.30	8.0	\$1 Trillion
2001	5.8	4.6	.37	7.0	\$2 Trillion
2002	6.0	4.5	.35	6.5	\$2.5 Trillion
6/2003	6.4	4.5	.37	5.5	\$3.2 Trillion

What is Different About Today's Market?

- Dramatic rise in single borrowers with no second income
- Improved servicing techniques
- FICO-based credit scoring
- Automated underwriting
- Historically low interest rates



Benefits of Technology



- **Enhanced our ability to better understand today's borrower**
- **Made us more efficient lenders**
- **Lowered credit requirements without damage to overall delinquency ratios**

2001-2003 Book of Business

- **Higher delinquencies and foreclosures on a regional level**
- **National delinquencies and foreclosures lower due to low rates, continued home price appreciation and improving economy**
- **Percentages could change if high interest rates return, home prices decrease and unemployment increases**
- **Mass Subprime originations are a product of last ten years and untested in a high rate recessionary cycle**

Real Estate – A New Investment Strategy

- **Equity from their homes**
- **Home as a piggy bank**
- **Change in investment strategies**
- **Larger market**



What Do I Worry About?

- **Regional market deterioration due to overbuilding**
- **Understaffed offices with inexperienced underwriters and validators making risk decisions**
- **Real fraud on a mass scale**
- **Economic deflation**
- **State laws and regulators all having significantly different rules**
- **Class action lawyers who represent their own monetary interests**
- **Paying overtime to loan officers who make \$500,000 a year**

Quality Assurance – An Essential Component of Our Business

- Touches everything we do – systems, technology, business processes
- How do we qualify a mortgage broker?
- Do our “values” match?



Quality Assurance Expectations

- Balance volume and quality
- Adaptable
- Professionalism cannot be separated from integrity
- Corporate risk quality assurance profile integral part of company
- What is the estimated overall quality of loan production?

Quality Assurance Expectations Ask the Right Questions

- Where do we need additional training?
- What offices are below expectation?
- What are the regional trends with recommendations to guard against deterioration?
- What brokers should be watched and/or suspended?
- Which tools mitigate real fraud?

Mortgage Banking Industry Vision

- Outstanding mortgage debt will double by 2010
- Consolidation
- Mega servicers will grow market share
- Less efficient mortgage banks and brokers will exit industry
- Right-sizing as market size contracts

Mortgage Banking Industry Vision

- Servicing released sales for small/medium mortgage bankers
- Wholesale efficiencies will translate into increased profitability
- A- and B subprime products
- GSEs will continue to grow
- Real product innovations will be few

Future for Mortgage Banking Processes



- Modestly tighter underwriting
- Better technology, appraisals, underwriting, title insurance, processing and broker origination systems
- More important role for Quality Assurance
- Paperless industry is years away

Future for Government Agencies and Regulations

- **FHA will continue to lose market share due to:**
 - internal inefficiencies
 - inconsistent regulation
 - expensive origination costs
 - competing products
 - bureaucratic attitudes
- **Increased state regulation, audits and general oversight unless affiliated with a national bank**



Future for Secondary Market

- **Securitizations will continue to dominate**
- **Securitizations and AU systems modestly change mortgage credit decisions**



Future for Mortgage Brokers

- Continue to dominate retail originations
- Major brokers will have their own warehouse lines and close loans under delegated authority



Future for Homeownership

- Rate of ownership peak at 70%
- Higher percentage of minority homeowners in next 10 years.
- Affordable housing remain critical issue in high cost areas
- Skilled labor will migrate to affordable areas



Housing – Backbone of America



- Prevented deep recession
- An enviable real estate finance system
- Global investors purchase mortgage securities
- The American Dream becomes a reality for millions

MBAA Quality Assurance Conference

