

MBAA Quality Assurance Conference Opening Session



John M. Robbins
Chief Executive Officer



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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



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



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

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