



# MORTGAGE TECHNOLOGY



## Short Sale Connections

LINKING ALL THE PLAYERS

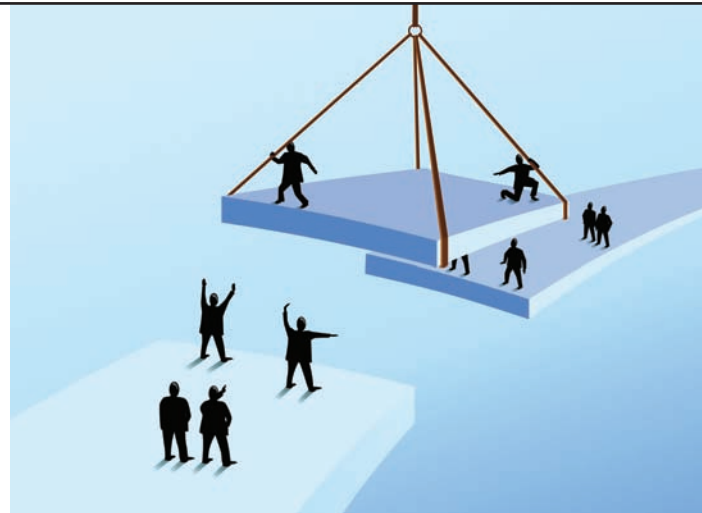
# Contents

## COVER STORY

### 18 Execute a Group Effort

By Anthony Garritano

As short sales become common, technology is stepping in to streamline the process and connect all interested parties.



## Features

### 14 Streamlining Workflow

By Anthony Garritano

New regulation is forcing lenders to lean on technology to improve the accuracy and speed of their process.



### 22 Balancing Cost

By Scott Kersnar

As mortgage lenders of all sizes struggle with costs and market uncertainties, outsourcing is turning into a safety net.

### 26 Advancing Servicing

Technologists explore the issues that most servicers face today and talk about some real-world solutions.



## Columns

### 5 Tech Outlook

FICO stresses the importance of using decision optimization technology when modifying underwater loans.

### 8 Lender Views

Supreme Lending details how technology has helped the company comply with HVCC.

### 10 Legal Insight

Coester Appraisal Group talks about the pros and cons of government intervention in mortgage.



## Inside

### 4 Editor's Note

Mortgage originators can learn a thing or two from servicers in terms of the benefits automation can bring when dealing with record-high volumes.

### 12 Tech Stats

By the numbers, those that were quick to open an efficient online retail channel are now reaping the rewards.



# Is Uncle Sam Bullying You?

The debate as to how much regulation is **too much regulation** is top of mind as a result of HVCC and other new rules.

**TO SAY THAT THE APPRAISAL INDUSTRY HAD TO ADJUST** to a new way of doing business over the past two years would be an understatement. With the Home Valuation Code of Conduct and more recently, by FHA's new appraisal guidelines, appraisers aren't just doing business in an all-new way, they're dealing with a broker-appraiser relationship that's been turned upside down.

Given the current state of the housing industry, it looks highly unlikely that we'll return to the old ways of ordering appraisals, where loan officers and production staff can freely select and interact with their appraisers. The array of legislation that has been implemented over the past year seems to be almost a last-ditch effort to save the integrity of the mortgage industry.

Is legislation the answer? The great debate of more government vs. less government is one that's as old as our country. In light of the state of the industry, as well as drastic industry changes, many are wondering: Is more legislation bad or good? Some say it restricts the ability to do business and causes a lot of unnecessary red tape.

Others say it allows essentially everyone to "play by the rules," which fosters a competitive market place since people who break the rules will be punished, penalized and eventually kicked out of the game.

As a professional who has literally grown up in the appraisal industry, I see legislation in the appraisal industry — specifically the HVCC and FHA appraisal regulations — as a good thing. Let me tell you why.

First, standardized rules allow for a national streamlined process that ensures an appraisal is done with no influence of value, and that the appraiser wasn't pressured to omit something from the appraisal. The wholesale segment and mortgage industry as a whole have

always wanted to keep the appraisal ordering out of the hands of mortgage brokers and loan officers.

However, in order to stay competitive many appraisers were forced to not only let loan officers order appraisals, but also deliver the appraisal to them. The HVCC was really a blessing in disguise. It has created an industrywide standard that removes control or influence in the appraisal ordering process from anyone that can gain from the transaction's closing, and does so without putting blame on the company. This creates fairness and a level playing field.

The second benefit is one that rarely gets mentioned. This type of legislation is a key component in courting secondary market investors, particularly those in the mortgage-



backed securities market, which deals with whole loan and jumbo products. Let's face it. Right now there is really no secondary mortgage market. Without the treasury purchasing a huge amount of MBS over the past several months, our current mortgage market would be almost nonexistent. The investor world has lost faith in the integrity of the valuations of U.S. real estate, and with good reason.

Guidelines like the HVCC and similar legislation are a strong first step in restoring that confidence and ensuring that the stated mark on the asset is really the actual current market value of the asset. By removing the pressure put on an appraiser to "hit the number," we are going to see much more accurate appraisals, and much more mortgage pools priced closer to the asset's underlying value. Due diligence will find a

eters fit directly into the risk models that were originally created to factor spreads and losses on a loan portfolio. All financial risk models account for a certain amount of "unintentional" misrepresentation. Investors know that not every single appraisal will be 100% accurate, just as they know that not every single borrower will pay back his or her loan. Customary risks like these are factored into investors' business models, and reserves and fees are adjusted according to risk tolerance. What is not factored in is "intentional" misrepresentation or inflation of appraised values. That's because it's almost impossible to determine whether or not every appraisal is done correctly and ethically. Legislation allows the mortgage industry to relax a bit, knowing that appraisals will reflect the most accurate estima-

praisers have wanted to do for years. It's really a win-win scenario. Over time, legislation can transform the perception of appraisals from a necessary evil for getting a loan closed to a necessary component in determining the soundness of a transaction.

Take a look at any society and you'll see that there's a certain security that comes from having set laws and regulations. The business world is no different. Legislation that prevents fraudulent acts allows for not only a truly level playing field, but also a transparent marketplace as well. The stock market benefited greatly from the Securities and Exchange Act of 1933, which essentially ensures "truth in securities" by prohibiting deceit, misrepresentation or any other fraudulent act in the sale of a security. The stock market would be a precarious investment without this protection, just as the mortgage industry would be were there not legislation preventing the loan officer or production staff from ordering appraisals. The HVCC is not perfect — a perfect answer may not even exist.

However, I do think this is the first step toward long-term legislation that will essentially forbid any loan originator or production staff from ordering an appraisal again. If you ask me, I'd say that in as little as a year, the mortgage industry could very well be kicking itself for allowing such a deep conflict of interest to go on for so long, virtually unnoticed until the mortgage industry almost completely collapsed. **MT**

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*Brian Coester is CEO of Coester Appraisal Group, an appraisal management company that specializes in providing appraisals that fully comply with HVCC and FHA appraisal guidelines. Coester Appraisal Group has access to every licensed appraiser in the country, handles appraisals nationwide, and offers a 100% guarantee that appraisals are done correctly. Brian Coester has been with Coester Appraisal Group for eight years.*

Without the HVCC or similar regulation ensuring an arm's-length appraisal process, there would be no way an investor would know that value on the appraisal.

much closer match between the original appraisal's stated value and the current estimated value.

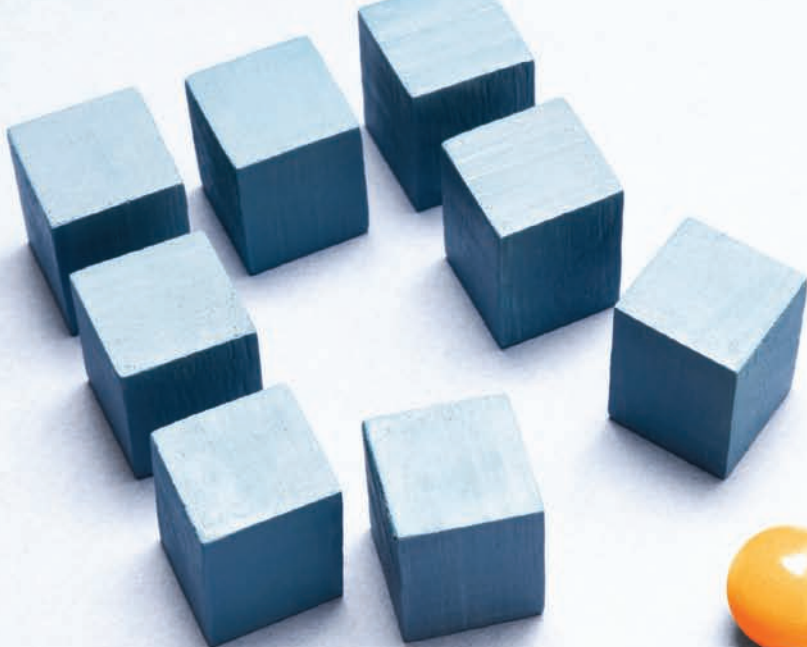
Without the HVCC or similar regulations ensuring an arm's-length appraisal process, there would be no way an investor would truly know that value on the appraisal. While there's no way to guarantee that all appraisals are 100% accurate, these guidelines help ensure that, at the very least, the value was not influenced. This is a huge factor when pricing the assets, as well as a major determinant for whether or not a buyer wants to purchase a particular pool and under what terms. Having legislation in place to ensure an appraisal's integrity gives the investor some faith that the number on the appraisal is an unbiased professional's opinion of market value. And interestingly, these param-

tion of market value.

Lastly, legislation allows the appraisers to be appraisers, rather than dealmakers. A lot of competent appraisers were forced to leave the business because they couldn't compete with appraisers that were willing to "hit the numbers," and didn't want to deal with the pressure from loan officers looking for a certain value.

Protecting the appraiser should be the main concern of every financial institution. It's the only chance they have for getting a true and accurate evaluation of one of the most important components of the mortgage transaction: collateral. By having legislation to protect the appraiser from undue influence, the industry not only respects the appraisal profession, but also frees appraisers to focus solely on their jobs, which is what ap-

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