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September 2010

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Contents

EDITOR'S NOTE

Only the Best

I know who the winners of this year's Mortgage Technology Awards are. But you're not going to be able to drag the information out of me.

No, no one, including the winners, will know who will be taking the prizes until our annual award ceremony, to be held on Oct. 24 in Atlanta during the Mortgage Bankers Association's convention.

The ceremony, which will be held this year at the Atlanta city aquarium, is always a great party, a great opportunity to see old friends and meet new ones.

We had a terrific turnout of applications for our lender and vendor awards this year, and a very high bar was set by the applicants. Because the bar is so high, we won't just be naming the award winners but also commending two other firms in each of the 10 categories.

This year we continue to keep the lender award categories that we expanded, recognizing that innovation in mortgage technology comes not just from vendors but from lenders themselves.

Our lender award categories are the Customer-Focused Lender Award, the Green Originator Award, the Innovative Lender Award, and the Servicer of the Year Award. Others include the 10X Award, Fix-It Award, Lasting Impact Award, Release of the Year Award, Steve Fraser Visionary Award, and the Synergy Award.

You will definitely want to catch the next issue of *Mortgage Technology*, either in print or online at mortgage-technology.com, where all will be revealed. Until then, my lips are sealed!

Mark Fogarty

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by Sanjeev Dahiwadkar

Transparency's Many Meanings

Transparency in default servicing means access to information at the right time and on a need-to-know basis.

WHEN IT COMES TO TRADITIONAL TECHNOLOGIES in default servicing, the word "transparent" always ends up being paired with some unpleasant descriptives: "Difficult to understand," "Hard to find information" or "More excessive than what I am looking for" are the few words that usually follow the word transparent.

At the core of these phrases is the lack of understanding regarding what users mean when they demand transparency. Transparency does not means simply lifting the curtain and letting everything be visible, nor does it mean to gather all the available information pieces and throw them together. Simply stated, transparency means having access to the needed information when it is needed and having a strong foundation of exposure based strictly on a "need-to-know" basis.

Each bit of information is a unique piece of the default servicing puzzle and to solve the puzzle, each piece must be properly put in its respective place.

Automation also inevitably ends up being paired with transparency, and it tends to act as a tool used to collect each and every bit of information without weighing its importance. The problem with automation is that too much emphasis has been placed on collecting every bit of information and treating all information equal all the time.

In reality, very little thought is actually given as to how to present the information in a meaningful way so that the individual looking at it can understand it. Obviously, automation enables a lot of valuable information about the loan to be shared but all that information may be of very little importance at the moment when someone is seeking a particular piece of information that is difficult to locate. Now, becomes like finding a needle in the proverbial haystack.

An example that comes to mind is a lending product that is available in today's market that professes to be the "system of records" when it comes to providing loan level data. Each activity related to the loan is recorded in the "notes" section of the system; whether it is a system generated alert, user entered critical observation, or any other related activity, it is recorded.

However, there is a caveat: when an employee needs a certain granular detail, he or she is given a plethora of screens to read and from there they must determine exactly what piece of information is needed. Additionally, this product claims to provide extensive "search" features. However, it is just a fancy search for specific text in the notes. So, ultimately it now becomes the end users challenge to find the specific information they need.

Here is an example of automated transparency without any thought of how the information is being entered into the system. The information for a "new address" is different than that of "change of address."

While transparency is present and it has tracked every change in the address, because some users call it "new address," that entry got lost because another user searched for "change of address." In this scenario, what good is the ability to see all the information?

True transparent technology provides its users with complete access on a strictly "need-to-know" basis (in accordance with the proper security and permission levels). This means access to the information and how to access the information.

Users must be able to easily navigate through the maze of information so that they can locate exactly what detail they need when they need it. This is when the marriage of transparency and technology really works.

Looking at the example stated above regarding the address change, if the technology was truly transparent it would have the most recent address visible to the end user with a prominent indicator to inform the user about history changes in the address.

Additionally, scrolling over the text using the mouse should display the history changes in the address field in reverse order, starting with the most recent change at the top.

In addition to the address change, supporting information should also be visible, such as when the change was made, who changed it, at what time, etc.

The key to success in transparent technology lies in a clean presentation and easy navigation. Navigation is like a map in the hands of end users while traveling through the uncharted roads. Because every loan has its own life and information, navigating through each loan is key to maintain its integrity. Truly transparent automation must ensure that all the information is properly indexed and tagged, classified and easy to slice and dice. Without such tagging/indexing—automation is actually a burden to transparency, as it actually makes user's job more difficult. MT

Sanjeev Dahiwadkar is the CEO at IndiSoft LLC.

 by Michael Chon

Verify First, Before Closing

Moving income verification to the beginning of the origination process, not later, is a much savvier way of doing business.

LET'S SUPPOSE FOR A MOMENT YOU NEEDED TO BUY GROCERIES for your family, but were short on money. Then, by sheer luck, a friendly man approaches you with an envelope. Inside, he says, there's enough money to buy all the milk, eggs and produce your family needs for a week. Now suppose the supermarket is several blocks away, on foot. Before you start off, do you look in the envelope to see how much money you have to work with?

It may seem like a silly question, but I use it to illustrate what's happening with far too many lenders today. Except in this case, the walk to the supermarket is the mortgage origination and production process, and the envelope is the borrower's real income and identity. Sadly, some in our industry are waiting until days before closing—when they're one block away from the supermarket, so to speak—to look in that envelope. In fact, they go through nearly the entire process with little more than blind faith that the information presented from their borrowers are true representations of who they are and their ability to take on the obligations of the mortgage. And they do this in spite of the availability of third party income verification and fraud management solutions that would enable them to know very quickly and very early what and who they are working with. The result of this delay is that it creates bottlenecks that are not only frustrating and stressful for the lender's staff and third parties (especially if the closing schedule is thrown off course), but it can also injure one's reputation with its borrowers. Further, it can lead to legal and financial problems down the road.

If there was ever a need for the industry to change this habit, it is now. For several years, the mortgage industry has been losing the battle against fraud. The most recent FBI fraud report released in June indicates that mortgage fraud investigations grew by 71% last year, even as housing sales volume declined. Obviously the bar has already been raised for lenders to pre-screen borrowers. But with the promise of new regulations in the wake of the Dodd-Frank financial reform bill, that bar is going to get even higher in ways that we can only imagine. Almost certainly it will result in tighter guidelines to verify the income and identity of all borrowers. And almost certainly those guidelines will lead to legal wranglings and buyback demands for those who elected to go light on

Continued on page 32

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— Jaki Brown, First Community Bank

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The leader in real estate technology

 by Alex Santos

Industry Still on Fraud Alert

Technology and analytics can help by providing the loan level analysis to make decisions on loans one at a time.

WHAT A DIFFERENCE FIVE YEARS MAKE. Back in 2005 lenders didn't have the same incentive they have today to use technology and analytical services on their loan originations because they didn't have much, if any, skin in the game. The hungry secondary market saw to that.

Lenders could sell loans and securitize them under the comfortable assumption that home prices would go up forever, so any accountability (read: problems) down the road would be easily mitigated by lower LTVs.

Now, of course, it's quite the opposite and in many ways we're paying the price for the structural weakness in lending processes that ruled the market in mid-decade. Not surprisingly, technology services and loan analytics are in great demand today, critical in identifying bad loans of the past and vital in preventing new loan misrepresentations and fraud.

Underwriting has markedly improved and accountability has risen. I don't know of a lender out there who isn't verifying a borrower's income, for example, in more than one way.

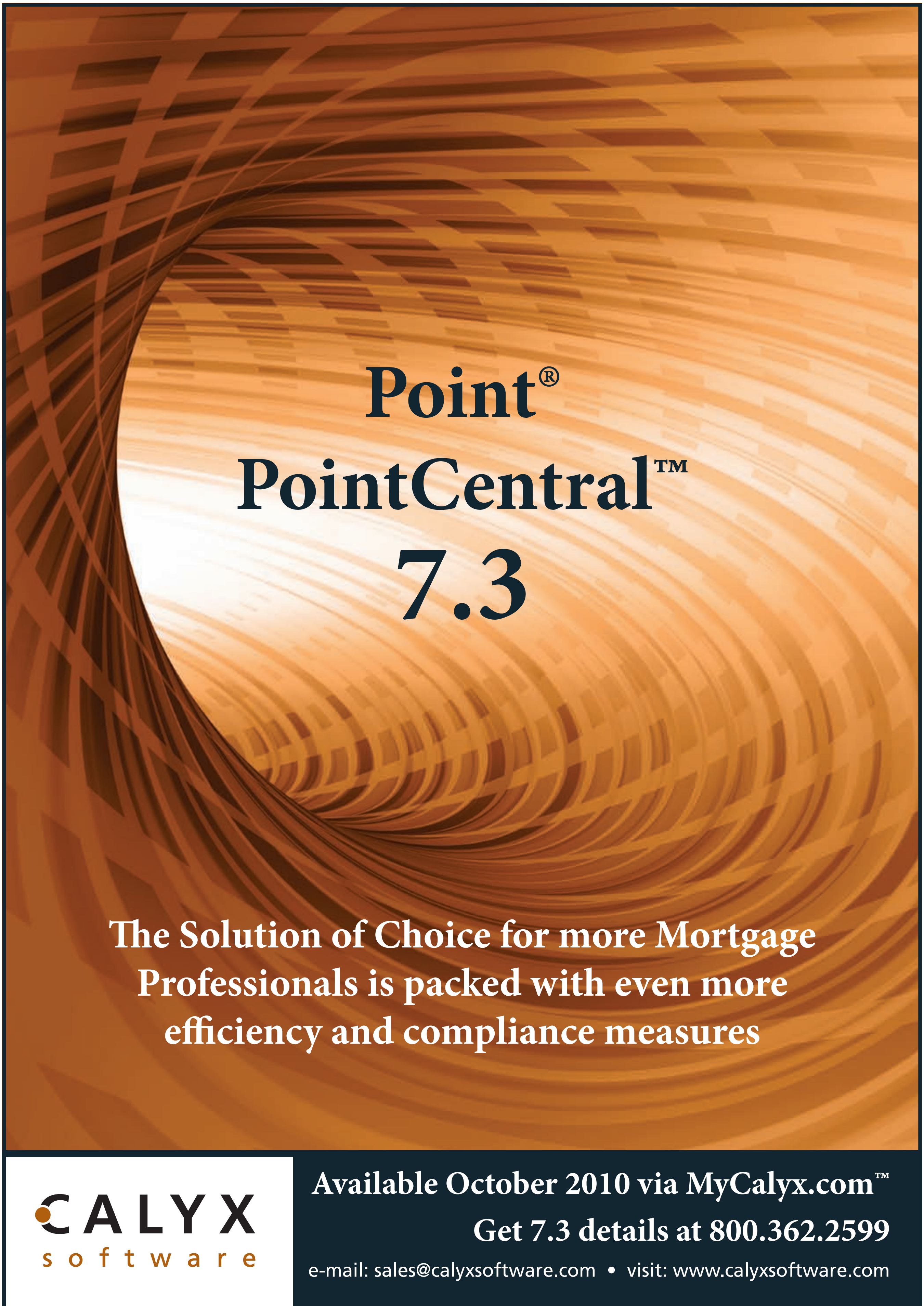
But make no mistake: Lenders, servicers, and investors must remain on heightened alert for mortgage discrepancies—the battle is far from over.

While technology has certainly helped the mortgage industry combat fraud in recent years, it's also made it easier for borrowers—and originators—to commit fraud. Indeed, it's easier now than ever for a borrower to lie on a mortgage application.

As Americans continue to be heavily leveraged—total consumer debt remains high at $11.7 trillion, down just 6.5% from its peak in the third quarter of 2008—qualifying for a mortgage remains difficult. That makes more people feel compelled to lie on their mortgage applications to qualify (don't believe it if someone tells you there are no "liar loans" anymore). Indeed, recent industry data shows that mortgage fraud is returning in a big way after a momentary lull.

The data show that mortgage fraud rose 17% last year after declining 57% the two previous years. In 2009, about $14 billion in loans were originated with fraudulent application data, according to the data.

If you want to find out how easy it is for a borrower to produce a phony pay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stub, just type "novelty pay stub" into an Internet search engine and see how many hits you get.

There are offshore companies all over the Web who will "rent" you assets long enough for you to (fraudulently) qualify for a mortgage and all the while the lender will never know what's really happening.

Short sales: the objective there is to get the proverbial pig out of the python. A short sale is less damaging than a foreclosure.

MORTGAGE FRAUD NOW A 'CRIME OF NECESSITY'

Clearly, then, the industry must remain vigilant, keeping up with and staying ahead of fraudsters.

As Merle Sharick, real estate solutions consultant at LexisNexis Risk Solutions, told professionals attending SourceMedia's Loss Mitigation Conference this summer, mortgage fraud used to be a "crime of opportunity, but now it's a crime of necessity. There's a lot of people and companies that have been around the mortgage and real estate industry for a number of years that became accustomed to a lifestyle that's no longer available." The fraudsters, he noted, are "focusing on the back-end right now because they're waiting for the dust to settle on the front-end with all the new regulations that are coming down."

Front or back, one enduring burden for the residential mortgage industry is the "shadow inventory" of distressed mortgage loans.

There are approximately five million loans in some state of delinquency (but not in foreclosure). These are borrowers still living in their homes who are not paying their mortgages or paying less than what they're supposed to be paying, but not being foreclosed on.

The government and the private sector have been trying for at least the past two years to put such troubled homeowners into some kind of loan modification program.

But there are many who just can't fulfill the requirements of the modification. As a result, delinquencies are starting to slow down and foreclosures accelerate.

Without improvement in the larger economy, foreclosure numbers will continue to accelerate.

Both the government and the private sector have a vested interest in keeping this "bubble" of borrowers out of foreclosure in order to prop up home prices.

They have done a great job of keeping that from happening over the last two years.

If we had started foreclosing on borrowers from the beginning we would have seen a downward spiral effect on home prices that would have been a disaster. But if we keep doing what we're doing there's a chance we can keep home prices either stable or only declining slightly.

Front or back end, one enduring burden for the mortgage industry is the large "shadow inventory" of distressed mortgage loans.

The government is also trying to do short sales. The objective there is to get the proverbial pig out of the python. A short sale is less damaging than a foreclosure.

Short sales reduce home prices less than foreclosures will. It's all about keeping home prices as stable as possible and avoiding a spiral effect.

MAKING DECISIONS ONE LOAN AT A TIME

In addition to combating fraud, mortgage technology and analytics can help by providing the loan level analysis to make decisions on loans one loan at a time: which loans can be salvaged with a modification, which ones are candidates for short sales, and which are too far gone and must go to foreclosure.

Technology companies are working with government entities, lenders, investors and servicers to try to modify loans.

Servicers are the front-line parties dealing with these modifications and they are overwhelmed.

The health of the market really depends on jobs, but also on how we manage these five million loans that are hanging out there.

At least one Wall Street firm believes those five million loans represent 47 months of supply of homes. Do the math: that puts us out to 2014 where we're still dealing with loans that were originated between 2005 and early 2008.

I'm pretty confident to say that this problem is going to extend into 2011 and the first half of 2012. Others think it will last until at least 2014.

I'm a little more optimistic that the economy will rebound sometime next year to enable some of these borrowers to resume paying their mortgages, refinance into new, more affordable loans, or do short sales. MT

Alex Santos is president of Digital Risk, New York. He may be contacted at asantos@digitalrisk.com.

NEW TOOLS AT FHA

Will FHA's overhaul of its technology and infrastructure help the agency be all it can be for lenders and brokers?

If the real estate market remains flat for the foreseeable future, one thing is absolutely clear for mortgage technology vendors and service providers: Their primary mission will be to help lenders and servicers lower their costs. Lenders will be looking to technology tools that leverage FHA Connection, electronic case binders and FHA TOTAL Scorecard to give them time and dollar savings.

At this writing HUD was contemplating, though it had not enacted, changes discussed in earlier Congressional testimony that would tighten credit and downpayment requirements, reduce allowable seller concessions from 6% to 3%, and tighten underwriting standards for manually underwritten loans. As noted in the July 19 edition of the National Mortgage News, the GSEs' tightening of their credit requirements is pushing loans to FHA, particularly in the purchase market. In the first quarter, according to Brian Collins' story, FHA insured 245,600 purchase loans while Fannie and Freddie together acquired only 184,500 single-family purchase

BY SCOTT KERSNAR

loans between them.

Though the complexities of FHA lending are being mastered by more and more lenders, some find it easier to outsource FHA insuring and fulfillment. An outsourcer can deliver expertise and onsite personnel to take the headache out of FHA lending, said David Green, president of The StoneHill Group, Atlanta. While that option may be cost prohibitive for many smaller players, "For projects in a larger scope for bigger lenders, The StoneHill Group provides a level of expertise consistent with and or greater than what the lenders expectations are as well as a variable cost option for their business model," he said.

Whether applied directly or via an outsource firm or business partner, mastery of the technology tools for FHA lending is proving to deliver clear competitive advantages, fewer headaches and increased loan volume.

Lenders can have greater peace of mind when FHA processes and compliance tools are baked into the LOS. At Lenexa, Kan.-based LenderOne Financial, reported president A.W. Pickel III, FHA loans for the first six months of 2010 are up 25% over the same period last year: $112 million vs. $79 million. A Mortgage Builder user, he said, "I don't have any complaints about FHA. We're getting stuff done pretty well."

"Mortgage Builder was initially created as a fully integrated system with FHA in mind," said Mortgage Builder sales VP Bill Mitchell. He noted that MB integrates 60 fields with FHA Connection, saving users like LenderOne and Michigan-based People's State Bank a half hour with every FHA loan they do—and reducing errors significantly.

"Moving through the 60 or more required fields happens more quickly and in a manner that is conducive to an ordered workflow," said Allison Renaud at Peoples State Bank, a Mortgage Builder user for over a year at this writing. "That additional 30 minutes per loan is reflected not only in the bottom line, but in the time required to respond to the borrower," she noted.

"Loan origination during the refinance boom was about volume and getting more loans closed regardless of the resources needed and their incremental costs," said MB's Mitchell. "These days, with more stringent guidelines and greater difficulty in qualifying, it is about efficiency. The resurgence of FHA has made the process less forgiving than in the past, and all the additional challenges have made the role of the LOS more important than ever." He stressed that linking with FHA via the LOS saves lenders money as well as time and makes it easier to obtain case numbers, CAIVRS authorizations (Credit Alert Interactive Voice Response and System) and refinance authorizations.

> As to the savings we realize each year by using Loan Score FHA AUS, we have saved over $80,000 the first half of this year alone.
>
> **-Kevin Marconi**
> **United Fidelity Funding**

In earlier stories we described how Xerox and Virpack mastered electronic delivery of case binders from their lender customers to FHA. "HUD requires delivery of a fully indexed case binder meeting very specific requirements that are compliant with MISMO's e-packaging and SMART Doc specifications," said Wayland Pond, VirPack's vice president of sales and marketing. "VirPack's e-delivery application allows lenders to efficiently deliver to HUD in just one click, simplifying their current paper process."

Guarantee Title said VirPack has enabled the to reduce the time it takes to submit files to HUD by over 50%. "We literally can deliver a file in about a minute—and we no longer have to prepare paper files and ship them overnight," said Debbie Marsteiner, vice president, Guaranty Trust Co. "In a market that continues to have daily volatility, it's reassuring to know we can count on VirPack to support even the most detailed structured content and since integrating their solution into our processes, we've simplified not only our fully indexed electronic delivery to HUD but our electronic delivery to all our investors."

Now surging way beyond e-binders and FHA Connection, FHA has embarked on an ambitious overhaul of its processes and technology, issuing a series of requests for proposals, and budgeting a reported $250 million to overhaul itself. In August 2010 the General Service Administration announced that Deloitte & Touche has been awarded a $62 million contract to aid HUD in carrying out the overhaul. "The identification and prioritization of the need to modernize FHA's technology infrastructure was articulated in great detail in the FHA IT Strategy and Improvement plan submitted to Congress in August, 2009," said one RFP. "The FHA IT transformation team worked throughout the spring, summer and fall of 2009 evaluating the FHA's current systems capabilities and business processes and identifying weaknesses that require correction." The RFP identified 25 priorities. The first four named were risk and fraud mitigation, multifamily business process re-engineering, FHA infrastructure (CHUMS replacement) and single-family automated underwriting system implementation.

The FHA has been looking for an AUS of its own. Time will tell how that plays out. Meanwhile, in an anemic market with fixed costs eroding margins and commissions shrinking, lenders and TPOs continue to endure the expense of reaching FHA TOTAL Scorecard via LP and DU. “Fannie and Freddie are raking in a quarter billion dollars apiece off of fees, $35 apiece for all their certs,” said MORTECH principal Jeff Lebowitz. “That hurts when you are hitting them just to get to FHA.”

While the development kit for TOTAL is openly accessible on the FHA website, since its introduction in 2003 until 2009, FHA had approved TOTAL scorecard interfaces for only a few AUS systems—LP, DU, Chase’s Zippy and Countrywide CLUES. Now FHA has added four approved vendors to the list: Avista Solutions, Loan-Score Decisioning Systems, MeridianLink Inc. and Overture Technologies.

TOTAL (Technology Open To Approved Lenders) Scorecard interfaces beyond LP and DU can be an obvious boon for mortgage originators. However, that creates a divide between LOS systems that include an automated underwriting system and those that do not, because TOTAL Scorecard offers an algorithmic equation to use with an AUS, but is not an AUS itself. Mortgagees have to process requests through an AUS that has a TOTAL Scorecard interface if they want to underwrite FHA loans electronically. It is especially valuable to do that because now, reversing its previous policy, FHA allows lenders to score, process and underwrite streamline refinance transactions through TOTAL.

Last year Columbia, S.C.-based Avista Solutions made itself the first LOS to secure FHA approval of a direct interface between its decisioning engine and FHA TOTAL Scorecard. Said Avista CEO Mark Phlieger after announcing that his company received approval, “By interfacing our automated underwriting capability with the TOTAL Scorecard, originators can get answers very quickly, without data reentry and other inefficiencies that can lead to mistakes and delays.” Phlieger said, however, that Avista has been too busy with new business this year to evangelize investor acceptance of TOTAL findings through its AUS. The company said it has grown its customer base by over 40% since the start of 2009.

Among AUS providers, Irvine, Calif.-based Loan-Score Decisioning Systems has been the trailblazer in gaining TOTAL Scorecard approval, and the first to gain investor acceptance. Loan-Score reported that Wells Fargo and Chase have started accepting Loan-Score’s TOTAL scorecard findings, with Bank of America and GMAC “in the final stages of acceptance analysis.”

To extend TOTAL access to originators beyond its existing customer base, Loan-Score built out Web services “that allow our LOS partners to enable their users to click a button from within their LOS and seamlessly return FHA eligibility results without ever leaving their existing application,” said Loan-Score SVP Joe Bowerbank.

In its most recent alliance, Loan-Score has embedded its product-and-pricing engine and AUS into the screens of Calyx Point, with a drop-down menu in Point “that allows the user to seamlessly connect to Scorecard” and obtain a certification insured by HUD’s Homeownership Centers.

For wholesale lenders like Kansas City, Mo.-based United Fidelity Funding, that Loan-Score integration with Point is an obvious boon. “We have a Calyx Point server independent of our other systems,” said United Fidelity COO Kevin Marconi.

“Regarding the savings which we realize each year by utilizing Loan Score FHA AUS vs. DU or LP,” he said, “we have saved over $80,000 the first half of this year alone. The true savings realized though is a lot more difficult to measure. The granular integration of the AUS into the front-end point of sale, as well as the field-by-field integration with the back end automated operations—which then flows into our vendor services and quality control systems—is where the savings are truly captured. The entire process starts at point of sale, though, with the AUS.”

Marconi stressed that this is not a benefit United Fidelity Funding could have enjoyed using LP or DU.

If you go to BrokerFHA.com you find technology that gives a double boost to wholesale lending. Deployed by Irvine-based Nations Direct Mortgage and leveraging the wholesale portal powered by Loan-Score, BrokerFHA.com uses Comergence Compliance Monitoring as a clearinghouse for performing TPO due diligence to deal with FHA’s requirement of lenders to vet TPO compliance with FHA rules.

“Many wholesale lenders are waiting on FHA to clarify the rules of the game moving forward before taking on TPO approvals and management,” said CCM. “However, through the CCM TPO due diligence and monitoring system, lenders can rest assured that TPO review and approval procedures will meet and exceed any standard FHA chooses to adopt.”

Following due diligence process, CCM issues lenders a report on a potential TPO partner “that allows lenders to quickly make a decision to approve or deny the TPO’s application.”

“I was a bit leery because we were doing it manually before,” recalled Nations Direct president Carl Vernon. But a demo convinced him that Comergence performed a thorough check encompassing SAFE Act compliance and all state and federal loan officer licensing requirements. Once brokers are vetted and approved by CCM on theBrokerFHA.com website, they get a major bonus: free access to Loan-Score, saving them the $35 they otherwise would have to spend to run all their FHA loan applications through TOTAL Scorecard. MT

Photography Josh Sanseri

GETTING COMPLIANCE RIGHT

With a dozen of the Dodd-Frank reforms impacting the mortgage industry, lenders now more than ever need to know what's required to stay on the right side of the law.

In order to deal with ever-changing regulations at the local, state and federal levels, it is important that lenders be able to stay on top of the changes and, if necessary, to update their systems quickly and accurately to comply with applicable law on their effective dates. In this month's Q&A, Dominic Iannitti, president and CEO of Carson, Calif.-based DocMagic Inc., which does business as Document Systems Inc., talks about how robust technology, including compliance audits, helps ensure that lenders are in compliance with Dodd-Frank, specific FHA guidelines, the Texas cash-out fee limitation, RESPA 2010, the Mortgage Disclosure Improvement Act and many other laws.

By Jennifer Harmon

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MORTGAGE TECHNOLOGY: *How can technology significantly help lenders with the latest compliance regulations such as the Dodd-Frank Act and RESPA?*

DOMINIC IANNITTI: It is difficult to fully respond to the challenges the Dodd-Frank Act will present because the implementing regulations have not yet been adopted. I think it is safe to say that the scope and breadth of the act will in itself be challenging, affecting forms, software, calculations and more.

I can already foresee adding audits that address restrictions regarding mortgage originator compensation and the prohibition on YSP and other payments that are tied to the loan's interest rate, points, and/or other fees. And, of course, we will be modifying our high-cost tests to comply with the new "high cost mortgage" provisions of the act.

Lenders can look back to RESPA 2010 and ask how well their document preparation vendor did in ensuring that the GFE, HUD-1 and other RESPA-related forms were not only in place by Jan. 1, 2010, but programmed accurately given all of the regulatory guidance that was available at the time.

Where ambiguities existed in the implementation of RESPA 2010 (and there were many), how well did the document preparation vendor do to reconcile those ambiguities? Did the vendor make good judgment calls in those instances?

With respect to the compliance vendor, similar questions need to be asked, including whether or not comprehensive audits were in place by Jan. 1, 2010 to assist mortgage loan originators with staying in compliance with RESPA, especially with respect to not exceeding the zero tolerance and 10% thresholds referenced on page 3 of the HUD-1.

Technology can be used to build automated tolerance cures. In addition, it can be used to build the proper audits so that lenders, brokers and mortgage loan originators comply with RESPA 2010, such as with regard to making sure that the GFE is valid for a minimum of 10 business days, that lines 801-803 and transfer taxes do not increase, and that certain fees, when added together, do not increase by more than 10% of the total amount disclosed to the borrower on the GFE.

To leverage that technology, it is also important that the user understands in clear and simple terms (through the graphic user interface) the data that the user needs to provide so that the proper data is collected. Without user-friendly instructions to help the user understand what information needs to be provided, technology won't be able to be used at its optimum level.

MORTGAGE TECHNOLOGY: *How have you adapted to different compliance issues along the way?*

DOMINIC IANNITTI: More than five years ago, I saw the need for compliance. It was a natural evolution of our business to incorporate compliance into the production of the documents we produce. That vision has really materialized in the last two or three years because of RESPA 2010, the various higher-priced mortgage loan laws that states are adopting as well as Section 35, the federal higher priced mortgage loan law. Clients realize they are in compliance lending.

We are continually adding audits that will help our customers stay in compliance. They not only want the documents, they want to make sure their loan will be able to sell on the secondary market.

During the past five years, our customers are using loan origination systems more and more. It's a reflection of the market. The LOS systems don't have built into them compliance tests and audits.

For a lot of our LOS partners, and we do work with just about all of them, increasingly we have built a toolset that allows them to tap into our compliance auditing engine and incorporate our audits into various parts of their workflow process. We have a couple partners now and more on the horizon, which are actually utilizing our Web-based compliance services to test their loan transactions within their own systems.

Part of being a partner with DocMagic is much more than getting the documents, it's being able to utilize and leverage that compliance expertise in their own systems. We're seeing a lot more of that. We identified compliance as being important many, many years ago. Our auditing system is in its third generation at this point. The moment we prepared our first set of documents 23 years ago to be exact and a client came back to us and said, "Well, this needs to be improved," or "How come you didn't know that I was doing this wrong?" That was the beginning of our compliance auditing and we would build those audits in as the clients would give us that feedback. That's where it started and where it is today—every aspect of a transaction is analyzed.

We analyze fees. We compare those against previously disclosed fees and alert our users if they are doing something they can't do—changing of a fee outside the tolerance level or something like that.

It's grown into a very critical part of our operation. Over the past few years, we've put a lot of time and effort and a lot of new team members into the mix in terms of making sure we are

SPOTLIGHT ON **DOMINIC IANNITTI**

As president and CEO of DocMagic, Iannitti strives to enhance, refine and improve products and services toward allowing clients to easily provide feedback and requests. DocMagic started its compliance auditing system 23 years ago and continues to add audits based on new regulations. A monthly newsletter delivers all lenders need to know about local, state and federal laws.

on the leading edge. What differentiates us from companies like us is the fact we do that internally. These are our systems.

MORTGAGE TECHNOLOGY: *Where do you see compliance headed?*

DOMINIC IANNITTI: Compliance is going to be increasingly important not only at the lender or broker level, but at the vendor level as well. As a document preparation provider, I have seen first-hand how critical compliance has become to our business. It is a natural evolution of our business.

Sure, DocMagic can provide the documents needed in the loan origination process, but it is vitally important that our calculations are accurate and that the various blank fields on a form populate with the correct loan-specific information. Our customers expect nothing less. Furthermore, our customers have come to expect that DocMagic provide more and more compliance audits and tests. To that end, we have been including federal and state-specific high-cost tests with the processing of each loan transaction for years now. On top of that, we have numerous data validation and compliance audits that we have integrated into our DocMagic system. Compliance audits range from complying with specific FHA guidelines, the Texas cash-out fee limitation, RESPA 2010, MDIA, and many, many more.

I can only see the scope of DocMagic's compliance services increasing as implementing regulations for the Dodd-Frank Act are adopted and amendments to RESPA and TILA take place. I am also aware that state legislators will adopt their own amendments and regulations as well, some of which will be intended to reconcile various inconsistencies with federal law. I can already foresee that DocMagic's customers will look to us to help them navigate the myriad of laws and regulations to keep them in compliance so that they can ultimately sell or securitize their loan.

MORTGAGE TECHNOLOGY: *Can a successful company survive on technology alone?*

DOMINIC IANNITTI: We need to be in a position of listening to what clients want. Seven times out of 10, client feedback doesn't have anything to do with the actual technology we've used to deliver the products so much as its question is related to why a document does a certain thing. What are the timing elements of certain disclosures, questions of what types of fees can and can't be charged. Certain regulations are requiring fairly in-depth computations with respect to loan fees and different charges. It's about trying to normalize this information so that a comparison can be made to determine if a loan is in some sort of a category that we rather it not be in or if an APR is too high. Different things like that.

We leverage technology to assist us in providing and servicing up that information to our users in an efficient format so that they don't have to deal with the frustration of picking up the phone and calling. Not that that is a frustrating event, but it is something you have to do. It's always nicer from an information provider perspective to have everything at your fingertips. The foundation of the information is not based in technology. It's based in an analysis or our interpretation of a particular regulation.

Since day one in this industry, since I've been here, we've always had the computation of an APR. Since that time, clients have always had questions about what goes into that, and how does that get computed? Historically, we'd get a phone call saying, "Well, I think the APR seems a little bit high. Are you guys sure about that computation?" In the early days before technology was assisting us to a large extent, we would direct them to a regulatory section of Truth in Lending and say we are providing an APR consistent with what you will read in that regulation.

While a lot of companies similar to us have laid off employees and downsized significantly, we have not laid off anyone at this company. Our support departments have been maintained at the same levels they've been at for many years. We analyze every phone call coming in. There are computer systems noting how long people are on hold. That information is served to upper management to ensure that there are always enough people in the call queue to handle all the calls.

MORTGAGE TECHNOLOGY: *How have you improved your company internally?*

DOMINIC IANNITTI: More technology provides new options. We always have to look at those options.

A couple years ago we introduced

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New from Xerox Mortgage Services, BlitzDocs eXtended Edition increases the reach of the BlitzDocs network to borrowers - electronically deliver loans, capture ink signed documents and eSignatures, and enable direct upload or fax to the eFolder. With BlitzDocs XE, and our growing network of providers, we can help you soar.

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our Webchat system, which enabled a client to get instant access to a technician or a customer service representative. We are working right now on analyzing a new call logging system. Every call that comes in is logged. We are tracking any information we provide to the clients. If anyone calls in and has a question to a particular regulatory change, we provide them with a document created by our legal compliance department. We are tracking that information. We know we have provided that document. There's a method we are working on that will allow the client to essentially grade that document so they can give us feedback on whether or not that document helped them with their question. That can help us further refine the information we are disseminating.

We have also been analyzing for quite some time the calls that are coming in with respect to the document package we provide. We have designed a new system when a set of documents is ordered, the system will detect it's one of the first few uses of a loan program. It will then send out a questionnaire that asks a client the very question that tends to make up 80% of the calls that we get after that set of documents. It's a very proactive system we are putting into place.

When we first started the business, adding and deleting documents was one of the most difficult things a customer service representative did during the day. Now, thanks to technology, a lot of what are now mundane tasks, we can empower the clients to do on their own. Searching the library to find a document, in the early days we might have had 1,000 documents. That number is up to 75,000, maybe 100,000 documents. It makes it very difficult, very tedious to find a document. We're working on ways to now to refine searches and get them more precise. In the near future, we see ourselves making a tool available where a client can type in a title and with one click the system will serve up results. In a few seconds, they can do it on their time schedule to accommodate the customization of their package. That's an example of where the technology is going to be able to enable us to take the service level of our company.

Dominic Iannitti, president/CEO of DocMagic, tackles compliance issues with Melanie Feliciano, chief legal officer. The duo says regulatory changes are driving lenders to more use of technology.

We're very excited about the e-disclosure delivery system. We've had it now for over five years. Of course, it's been refined and enhanced. With a lot of the regulations that have been changing, there's a real push to use it and it makes a lot of sense. In the old days, you used to see a 72-hour window of time to create a disclosure package after getting an application from a borrower. Then you put it in the mail. The reality is a borrower really doesn't see any tangible information until they receive that package. The original idea was to get that information and compare it with another lender. It took time and the process was slow, paper intensive and labor intensive.

We have streamlined the system where all of the invitations are brandable and you can change the colors. A lender can leverage the technology to the point where it doesn't say DocMagic anywhere. It looks as though it's that lender's technology.

Today there is a big difference providing information to a borrower in one second vs. five days. We found by giving them information in a second, our clients are noticing a higher level of pull-through on their transactions. A higher number of clients are staying with them and closing than in the past. I don't think anyone ever thought that simply getting that information to the borrower faster might solve that problem or create that benefit. The click sign addition enables a borrower to pick a signature type and literally click to sign the different documents. At the end of the process, the borrower feels they have further confirmed their acceptance of the transaction. MT

Gandee Vasan/Getty Images

The Paperless Chase

The E-mortgage is gaining again, after the foreclosure boom temporarily increased the paper trail.

Efforts to reduce paper in the mortgage lending process hit a snag after the foreclosure crisis, with investors and government agencies imposing stricter documentation requirements for home loans. But while the Dunder Mifflins of the world aren't going out of business yet, recent indications suggest that e-mortgages and other paper elimination initiatives are once again gaining traction.

A recent survey by Xerox Mortgage Services finds that 86% of industry executives expect e-mortgages will account for a majority of loans produced within seven years.

By Ted Cornwell

While just 4% expect e-notes to be in the majority within two years, 42% expect e-mortgages to account for most mortgages within three to four years. Another 40% expect the tipping point to occur within five to seven years.

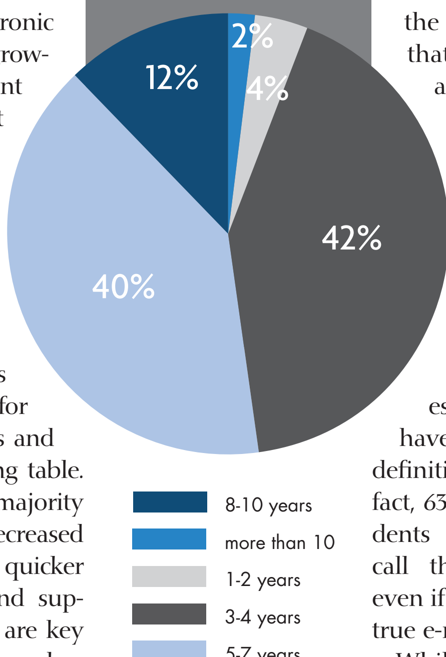
The survey confirms that momentum for electronic commerce is still growing. Sixty-nine percent of lenders say that they are seeing an increase in electronic disclosure forms being used in the lending process, and for many firms electronic disclosures may pave the way for electronic signatures and e-notes at the closing table. And a substantial majority (79%) think that decreased processing costs, quicker turnaround time and supporting compliance are key factors driving the paperless lending processes.

The benefits are indisputable. A 2006 MISMO study estimated that a typical mortgage company would see a 25% improvement in overall closing costs during the second year after implementing an e-mortgage solution, and that the benefit would exceed its implementation costs within three years.

Todd Moncrief, vice president for business development at Xerox Mortgage Services, was at the first MISMO meeting devoted to the topic of e-mortgages. While progress in moving toward truly paperless lending has been slow, he says the value proposition is getting stronger for lenders as evolutions in technology increase potential cost savings.

E-MORTGAGES ON THE RISE

82% of respondents say it will take three to seven years for the mortgage industry to process more than 50% of all loans as an e-Mortgage.



Source: Xerox Mortgage Services.

"There is a steady movement toward a true e-mortgage, which the MBA and MISMO define as a true e-promissory note being signed at closing," Moncrief told *Mortgage Technology*. "More people are educated about what you have to do, where are the holes in the process that have to be covered and who are the players who have to be involved."

Moncrief acknowledges that in the interest of marketing, a lot of people are saying they are doing paperless mortgages when they really haven't met the MISMO definition of that phrase. In fact, 63% of survey respondents say companies can call themselves paperless even if they are not doing a true e-mortgage.

While the foreclosure crisis has resulted in renewed documentation requirements, the crisis may also spur the industry to embrace secure electronic documents, which can serve as a barrier to the old "white out" version of document fraud. That's especially true now that the government-sponsored enterprises are placing more responsibility on originators to ensure the accuracy of loan data.

"Everybody now has a big vested interest in their quality control today," Moncrief noted.

Documentation is king in the marketplace right now, he said, creating new hurdles for lenders that are trying to embrace paperless processes. But the digital revolution has not been abandoned. Because of the renewed emphasis on ensuring the accuracy of information on loan applications, paper or imaged documents, such as W-2 forms, bank statements and tax returns, will likely remain a part of the loan file, though the documents may be imaged and the data captured for digital use.

And for that reason, lenders in Xerox's latest survey emphasize that "a real paperless solution" must provide the flexibility to work with paper, images and electronic documents.

"It's an evolutionary process, and they need a way to move the process around to get the incremental benefit," Moncrief said.

So what does a truly paperless process look like, according to the survey?

Ninety-two percent of respondents said it involves using electronic documents instead of paper or paper-sourced images, while 88% said it entails electronic delivery of closed loans to investors. And 83% said storing loan notes in an electronic repository, or e-vault, is a critical component of paperless lending.

Moncrief said a lot of people have to be able to touch the e-mortgage note in the process of funding a loan. Fannie Mae created the first e-mortgage in 2001, but that involved just one lender selling directly to Fannie Mae. For many home loans, the route to financing is not so quick and easy.

The whole network of parties involved in a loan closing will need to have the means to manage electronic mortgage notes. And investors will have to be on board as well. So far, Fannie Mae and Freddie Mac have embraced it. But to date, the FHA does not accept electronic signatures, and that creates a stumbling block.

"If 50% of the market is FHA, you have to wait on them," Moncrief said.

But he said the FHA is making progress, noting that the FHA now accepts imaged documents for its 10% audit requirement.

Further down the line, custodians,

warehouse lenders and servicers also have to be on the bandwagon for e-mortgages to really take off. Not only will they all need to have access to the technology for handling e-mortgage notes, they'll also need to have rules, rights and processes in place for managing them.

"All of those things have to be greased," Moncrief said.

To date most e-notes have been processed by lenders that serviced the loans themselves and sold directly to a single investor. But some of the lenders that served as e-mortgage pioneers have seen changes in ownership as a result of the industry crisis, and now their portfolios are being sold. That means that a new servicer will need e-note capabilities.

That is helping to smooth the "natural progression" of increasing e-note acceptance across the mortgage spectrum, Moncrief said, which may be one reason why industry participants are now regaining optimism about the likelihood that a majority of loans will be processed as e-notes within seven years.

In 2008, only 27% thought a majority of loans would go the e-note route within three to seven years.

"It's on the horizon. It's coming," Moncrief said.

The Push from MERS

Moncrief credits MERS, the industry-owned utility that tracks the ownership of mortgages and servicing rights, with doing much to promote the adoption of e-note technology. MERS has created an e-registry for tracking e-mortgages ownership, though the actual electronic notes are stored on e-vaults offered by industry vendors, including Xerox.

Dan McLaughlin, executive vice president and product division manager at MERS, said 177,000 e-notes have been added to the registry as of August.

"We're averaging right now 250 to 300 notes a day. We expect to see those volumes start going up," he said.

Despite the relatively modest volume to date, McLaughlin sees reasons to believe that e-note usage is poised to start growing again.

"Things were going really well up until the financial crisis. Large organizations that had big plans to implement electronic notes put those plans on hold for obvious reasons," McLaughlin said.

For one thing, Wells Fargo has indicated that it plans to start accepting e-notes from correspondent lenders next year, a move that will likely pressure other big aggregators to follow suit.

Today, the firms that have been successful originating and selling e-notes are mostly GSE-approved seller-servicers that are depository lenders and don't need to finance their mortgage production through a warehouse line of credit, McLaughlin said.

"The traditional warehouse lending community, for reasons that aren't real clear, has been reluctant to enter into this electronic note world."

That may reflect unease with using e-notes as security instruments for warehouse lines, he said. But those fears can be overcome. In late August, McLaughlin said three warehouse lenders were poised to start accepting e-notes in the near future.

"That's a big deal. Once you start seeing warehouse lenders being successful, generating significant volume, that becomes a very significant competitive issue for those that are not doing electronic notes."

Lender Perspectives

David Miller, senior vice president for business development at Cenlar, a major subservicer, told *MT* that the adoption of e-mortgages has lagged behind earlier expectations. So far, he said he's seen about a 3% to 4% increase annually in actual e-note mortgages coming in the shop. Cenlar is one of the few vendors approved for e-notes by Freddie Mac.

"Were not seeing the level that one might have accepted with the hype over the last couple of years on e-note documents," Miller said. "We do have repositories in place, but we're not seeing the usage. It just hasn't caught on the front end."

Continued on page 32

Phases of Going Paperless

	IMPLEMENTED	EVALUATING	PLANNED FOR '10	2011 OR OR LATER	NO PLANS
Paperless originating and underwriting:	49%	16%	19%	14%	2%
Electronic delivery of closed loan folders to investors:	47%	17%	17%	12%	7%
eAcknowledgement or eSignatures for disclosures:	23%	18%	32%	18%	9%
signatures at the closing table:	2%	28%	9%	35%	26%

The majority of respondents said they have implemented or plan to implement electronic document solutions to process loans.

Source: Xerox Mortgage Services

Taming Default Management

Can mortgage servicers use technology to the get the economy going again?

By Scott Kersnar

We used to say mortgage servicing lagged behind origination in using technology. No more. Today there is no question that the mortgage debacle has brought mortgage servicing a host of technology tools. Servicers and default specialists are being tasked with nothing less than turning around a stalled economy. "With a national shadow inventory of 7 million mortgage loans 60 days or more delinquent, handling mortgage loan default is absolutely critical for getting our economy back together again," stated Duke Olrich, president, CEO and founder of Newport Beach, Calif.-based

DRI Management Systems.

Responding to that crisis, over the past year we have seen an avalanche of new mortgage servicing technology products and alliances. In October 2009 alone:

• Irvine, Calif.-based Mortgage Outreach Services Group released a loan modification workflow management and tracking system to increase loan-level transparency.

• Santa Barbara, Calif.-based property valuation firm Equi Trax Asset Solutions joined the short sale clearinghouse for mortgage servicers led by Irvine, Calif.-based REsource Asset Management.

• Jacksonville, Fla.-based Lender Processing Services released a version its Web-based ClosingStream software tailored for electronic signatures used with HAMP workouts, and then in August formed a default-related network of service providers.

• Fort Worth, Texas-based distressed-mortgage servicer Residential Credit Solutions implemented a new automated loan modification document services platform that integrates software from Dallas-based SigniaDocs and Bethesda, Md.-based Overture Technologies.

Mark Rogers, EVP, Residential Credit Solutions, said, "RCS was specifically built to be a special servicer of distressed assets. When we started the company in December 2006, we obviously had no idea of the depth of the mortgage crisis. As events began to unfold in the first half of 2007 we determined that to meet the demands of the crisis, what the industry really needed was an automated underwriting engine for servicing—something that got down to the financial aspects of the borrower, not just dealing with the property as an asset.

"Overture had a similar idea. They had the AU for origination but had no servicing expertise. Someone suggested to their CEO that they needed to come talk to RCS because of the vision we had shared."

The rules-based system they crafted couples borrower information with the waterfall of programs to give answers to borrowers "in seconds, not weeks or months."

Reports say the Home Affordable Modification Program has succeeded in establishing a low redefault rate, achieving permanent loan modifications for some 400,000 borrowers that reduce their mortgage payments to 31% of income. The challenge for private sector modifications has been whether they can match that low redefault rate—and do it on a larger scale than HAMP has achieved.

The industry "really got interested in default technology after 2007, because there were so few people left who were trained to handle defaults." -Duke Olrich, DRI Management Systems

West Palm Beach, Fla.-based subprime servicer Ocwen has been the leader to date in mortgage loan modification under the federal HAMP program, posting the fastest turn times for converting trail modifications into permanent loans. The Treasury Department's HAMP record card shows Ocwen's conversion rate as significantly faster than large bank HAMP servicers. Ocwen cited its proprietary technology as a key factor in its success.

In August the Hope Now alliance of mortgage servicers and allied industries reported close to a million permanent loan modifications thus far in 2010, with a 7% decrease in foreclosure starts and a 9% decrease in foreclosures. Since November 2009, Columbia, Md.-based Indisoft has powered the HomeLoanPort website (www.hopeloanportal.org), deploying its RxOffice system to help the HomeLoanPort alliance of counseling organizations give borrowers in-depth debt management, credit counseling and overall foreclosure counseling. Providing member organizations a way to arrive at a common method of data exchange, Indisoft boasted enabling servicers to shrink the decisioning time from 60 to 90 days down to 30 to 45 days.

Fiserv boasts that its servicing platform was the first system fully capable of supporting the Making Home Affordable Modification Program.

At this year's MBA servicing conference Fiserv showcased the default-management capabilities of its loan servicing platform, including automated loss mitigation workflow, the one-touch technology of its portfolio-management center and its interface with the LenStar default-attorney communications network.

As the industry deals with the massive task of addressing REO disposal and loan workouts, ISGN's LenStar has drawn high praise for its role in expediting foreclosure proceedings, particularly in enabling dealing with attorneys online. "I can confirm that the use of LenStar's Integration Utility technology has most certainly resulted in labor savings," said Joel Freedman, managing partner of the financial services law firm Johnson and Freedman LLC. "Having the ability for specific information to automatically interface with LenStar saves our staff from double entry."

Having relationships in-depth with their users, veteran technology providers like Lenstar are able to address specific logjams and pain points as they become obvious. Another example of that is the CoreLogic iClear system, which automates invoice processing to address a surge in invoices from foreclosure attorneys and field-service providers. The iClear system is platform agnostic and is currently being used by three of the five largest servicers, including one top-five servicer that uses iClear to subservice more than one million loans for one large investor.

A number of startups have launched to address specific pieces of the default crisis. In its first operational year, short sale specialist National Quick Sale reports that it "has added 40% of the nation's top 20 servicers to its client list, has several more in the pipeline, and has been approved as a component service provider with one of the GSEs." NQS provides all stakeholders in the short sale transaction with "their own Web pages and dashboards for monitoring progress on multiple deals."

Automating numerous functions online, Jacksonville, Fla.-based National Quick Sale boasts a pipeline "of over 10,000 short sale transactions under management in its platform at any given time," with this number "expected to grow exponentially for the remainder of the year and beyond." By having each deliverable laid out online for participants to eliminate time-wasting delays, and with third-party services ordered directly from the platform, investors and servicers can make decisions and approve online, "bringing true automation speed to the short sale," so that sale transaction time "goes from the 10 weeks previously required to as little as 10 days."

Faith Schwartz, advisor to both Hope Now and the Hope LoanPort, commended National Quick Sale "for helping borrowers with no other options" to get a short sale quickly "through technology advances."

TheModPost.com, Miami, bills itself as the leading provider of Web-based loan-mod and short sale software for the mortgage and loss mitigation industry. Parent company The Loan Post launched the Mod Post to target the niche sector of third-party homeowner advocate groups. The system offers online submission and tracking, provides users with custom website templates and "makes it easy to integrate private labeled submission forms and login portals" for a user's website. It features built-in loss-mitigation tools including a HAMP auto-calculator, an NPV calculator with pass/fail results, a HAFA short sale offer analyzer, a net investor benefit estimator and an automated property value estimator.

Responding to the knowledge that many upside-down borrowers are actively exploring their alternatives to mailing the servicer their keys, the Mod Post also features "the most innovative, automated do-it-yourself loan modification system for homeowners," working like TurboTax to guide homeowners through their own loan modifications.

Seeing how many single-purpose systems have launched lately "to handle REO or HAMP mods or short sales," DRI's Olrich commented, "In the long run that doesn't work." He said the need for such systems arose "because from 2000 to 2007 mortgage industry employees were trained to make loans; that was the name of the game. In 2007 the industry found itself totally unprepared because there weren't enough people trained in default. Technology had to fill the need. There are a lot of technology vendors augmenting servicers' default departments with single-purpose tech tools such as analytics or loan mods."

The mortgage industry "really got interested in default technology after 2007," Olrich said, "because there were so few people left who were trained to handle defaults." Then, though there was a general expectation that the megabanks would marshal available resources to modify stressed borrower's loans on a significant scale, that didn't happen.

"People were absolutely flabbergasted to see how much product was not going through," he said. Hence, the opportunity for entrepreneurial loan-mod and short sale technology providers to step in.

However, that didn't mean the more broad-based veteran servicing technology providers—such as ISGN, LPS, Fiserv, FICS and DRI itself—were not actively bringing their systems into the 21st century. "Now we see a tremendous demand for broad-based default systems," said Olrich, as prologue to talking about the September 2010 launch of DRI's Web-based Rincon default management platform with modules for loss mitigation, bankruptcy, foreclosure and REO.

He said Rincon uses the Microsoft .NET 3.0 coding framework along with service-oriented architecture to enhance communication with standard servicing platforms and other enterprise systems.

Rincon promises "to import loans into the database, maintain synchronization between the servicing system and the default system, and gather other important data (pay-off, reinstatement quotes, etc.) from the servicing system, all in real time."

Robert Shiller, director of loan resolution for Dallas-based nonperforming loan specialist Wingspan Portfolio Advisors, told Mortgage Technology prior to the general announcement, "I am confident that Rincon's Web services and automation will make us more productive. On Rincon it's a touch of a button instead of five minutes to do a step—and it's archived as well. To me that's a huge value added in their technology.

"Having the reporting capabilities in Rincon will maximize profits for ourselves and our clients."

He said the system is designed "to double or even triple the workload each servicing specialist can handle." However, given the high degree of automation in the new DRI system, Shiller described employee training time as minimal.

"After one day people get comfortable with the system." MT

Legal Insight

Continued from page 8

the prefunding due diligence on fraud and income verification.

This is not a call in favor of income verification in general, which I believe to be a no-brainer. We've known for years now that the bulk of mortgage fraud is created through borrower misrepresentation. This is about moving income verification and fraud management to the beginning of the origination process, or at least as early as is practical. There are a number of reasons why the industry should fully embrace this concept, permanently, and the sooner the better.

First of all, verifying income early gives lenders clarity about the deal. It eliminates last-minute surprises and relieves at least one source of stress in an inherently stressful transaction. More importantly, it saves the time of doing deals that won't work before putting too much time and effort into them. Running verification reports as early as possible also increases the chances of transactions closing on time or even ahead of time. We're all mindful that a lender's reputation is directly tied to how borrowers remember the experience. The relationship between a loan officer and the consumer could be a virtual love-fest for the first couple weeks, where there might be bonding over shared hobbies or the discussion of family vacation spots. But if it ends in a last minute, hair-yanking tumble of frayed nerves—because of bottlenecks that could have been avoided—it's the awful finish that will stick in the borrower's mind. Performing these simple checks also displays good faith and more attention to detail toward investors whose money is at ultimately at risk. We know that they look for ways to protect themselves through repurchases, and we can expect those safeguards to become more focused on early detection of problems such as fraudulent or suspect income claims.

Some may still think it's too much work to run 4506-T requests earlier in the loan process, or that it may be wasted energy if the deal falls through for other reasons. But this thinking ignores the fact that simple, inexpensive tools already exist for lenders to run income verification and fraud checks as early as they want to, and that it has never been faster or easier to do so. This means fully electronic 4506-T forms and electronic tax transcripts from the Internal Revenue Service, and identity verifications through direct electronic interface with the Social Security Administration, available through online ordering and order tracking and document storage and archiving.

But whatever the means being used, all lenders should take a minute to "look inside the envelope" before getting too deep into the loan transaction. In the end, it saves time and makes everyone's life a bit easier. MT

Michael Chon is the co-president of income verification and fraud management vendor Veri-tax LLC.

Paperless

Continued from page 27

Miller said e-note acceptance has been slow in part because of concern about storage of documents, with many industry participants lacking a good understanding of how official e-notes are stored and traded. There are also questions about the legal ramifications of using e-notes, he said. But he remains optimistic that e-note adoption will become widespread "on the shorter end" of the three- to seven-year timeframe suggested by the survey.

E-notes are not the only component of going paperless. Miller said most lenders have a back-end imaging solution in place so that loan files being boarded on a servicing system come in as images rather than paper documents. Cenlar has built an interface that connects a lender's imaging system to its own to facilitate boarding loans onto the servicing platform. Imaging has yielded dramatic improvements to customer service by eliminating the need to store and track down paper, he said. "Today, through our workflow imaging system, what we are able to do is bring documents up dynamically to a customer service representative."

Cenlar has also added imaging to its mailroom for correspondence, such as assignments and payoff requests, pertaining to loans already on the servicing system. MT

INDEX OF ADVERTISERS