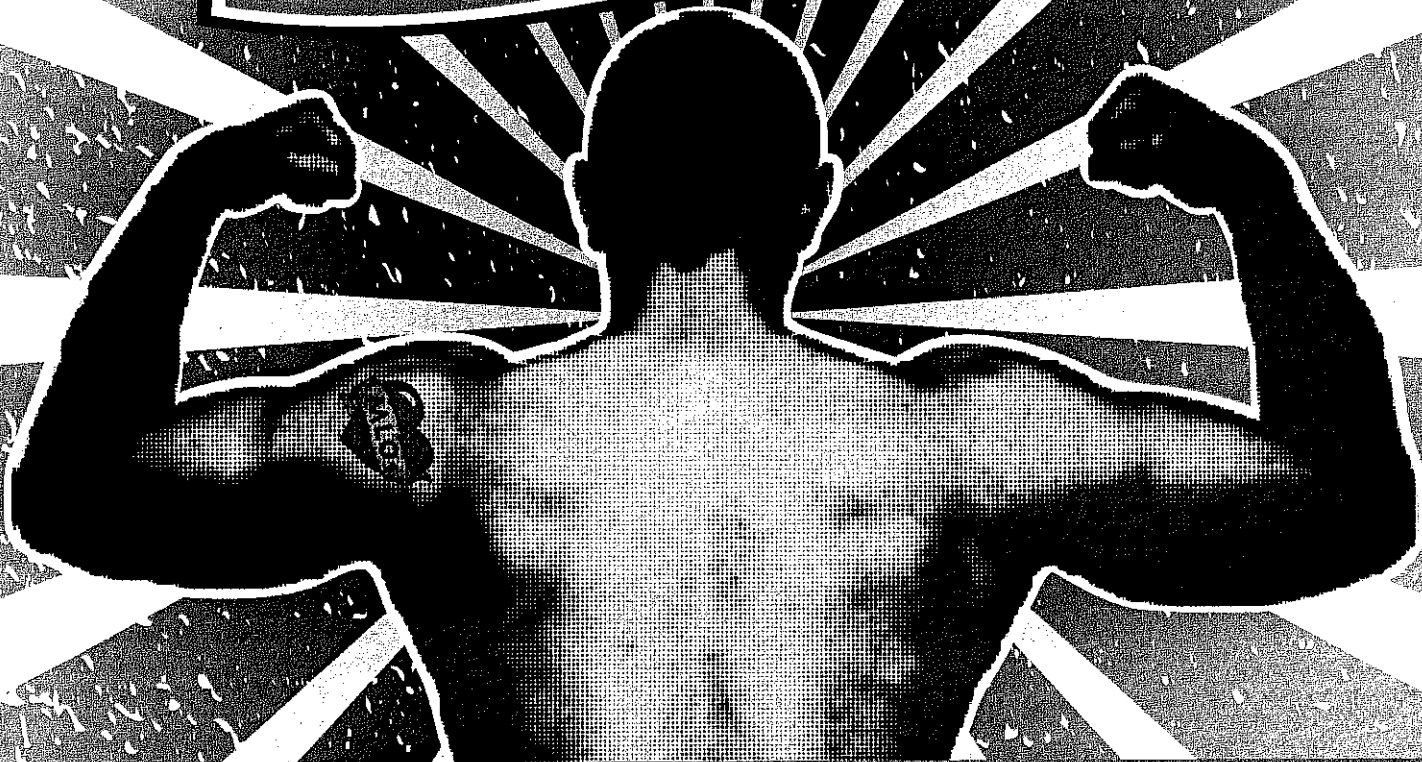


NATIONAL Mortgage PROFESSIONAL MAGAZINE

Your source for the latest on originations, settlement, and servicing

MARCH 2011 ♦ Volume 3, Issue 3

LENDERS VS. FRAUD



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Official Magazine of the
National Association of Mortgage Brokers (NAMB)
National Association of Professional Mortgage Women (NAPMW)
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The Top Five Reasons to Believe in Lending Again

Leaders can capitalize on signs of a bright future

By Robert N. Arrington

Are we seeing the light at the end of the recession? Perhaps. There are signs that the real estate market has reasons for guarded optimism, normally a good indication that a recovery could indeed be underway. The big question is when will the next leaders of this industry emerge? The time is right to seize the opportunities of a new era, and capitalize on this chance to gain a lasting strategic advantage over the competition.

After several years of tremendous challenges throughout the residential and commercial real estate industries, glimmers of optimism are starting to shine more brightly. And while there is still debate about exactly when we can say the worst is over, some are finding ways to succeed.

As the saying goes, you cannot change the direction of the wind, but you can adjust your sails. Acting strategically during times like these is key.

The ingredients for newfound profitability are all here, and this market turbulence could indeed be the mother of innovation. The last part of the puzzle is the creation of new jobs—a situation most observers predict will be an ongoing process. However, the savviest people in the industry recognize that even within this gloomy job market, top economists are predicting unemployment may peak soon—possibly as early as this summer—which will give jobless workers much more hope for finding employment. New jobs will truly inspire greater consumer confidence, which together, can bring about the end to this historic economic downturn.

But more importantly, now that we have identified the reasons for the historic market meltdown, we can act to correct them. Just like investigating the cause of a fire so that the same disaster doesn't happen again, the mortgage industry now has the capability to renew our prosperity. Regulators will be involved, for sure. We cannot, however, rely on regulation to prevent future problems. That's the bad news. The good news is we can act on what we've learned about how products perform in both bull and bear market phases, and we can all start moving ahead toward a healthier outlook, as indicated by these five reasons we can all start believing in lending again.

1. If you are reading this, you have likely survived the worst

The real estate industry might not be completely out of the woods yet, and no one knows exactly when things will improve for good, but upbeat trends are appearing. For instance, Fiserv Inc. noted that in the second and third quarters of 2009, U.S. home prices increased two percent each quarter; and, Robert Shiller, the Yale University economist who co-founded the widely used Case-Shiller Index that bears his name, called the home price rebound during the second half of 2009 "The most dramatic turnaround" since he began charting home prices in 1987.

National homebuilders like Standard Pacific Homes and Beazer Homes USA Inc. are also starting to see a return to profits, indicating tempered hope for a return to real estate as usual. As Ian McCarthy, the chairman and chief executive for Beazer Homes USA Inc. told The Wall Street Journal in February of 2010, "While it is premature to signal the beginning of a sustainable recovery in the housing market, we are seeing indications that historically high levels of home affordability, home

price stability, low mortgage interest rates, and homebuyer tax credits may be beginning to balance out prospective homebuyers' concerns about falling home prices, foreclosures and risk of job loss in most of our markets."

The ultimate winners in this economy will be the ones who go beyond surviving, and instead, discover ways to innovate their processes and products to capitalize on the new demands of the future—reaping the rewards of every new possibility.

2. We now know exactly what we need to do to fix things

Good, old-fashioned underwriting is once again the best approach to success. With an end to talk of completely automated decision-making processes, the industry is focusing on figuring out the fastest and lowest-cost approaches to verifying an applicant's ability to repay the loan.

"The era of easy money where you go out and buy \$800,000 worth of home is over," according to Rose Quint, assistant vice president of survey research



"The big question is when will the next leaders of this industry emerge? The time is right to seize the opportunities of a new era, and capitalize on this chance to gain a lasting strategic advantage over the competition."

for the National Association of Home Builders (NAHB). "Today, you have to put 20 percent down. And now that piggyback loans are not available, you are only going to buy what you need."

In this sense, a proven approach to underwriting can help simplify and expedite the loan process—and protect every lender from the threat of buybacks or fraud. Tomorrow's market leaders have already begun retooling their processes to support this move back to the basics—perfectly positioning themselves for the recovery.

3. Significant societal pressure is supporting a mortgage industry recovery

At every step of the lending process, there is a serious thrust behind loosening the lending gridlock that has been a huge obstacle for the industry.

Consider that late last year, income restrictions on homebuyer tax credits were increased through the Worker, Homeownership and Business Assistance Act of 2009, and the program extended the previous deadline, enabling eligible families to purchase new homes by July 1, 2010 and still qualify for up to a \$6,500 tax credit. There are those who remain cautious about the impact this program will have. Nonetheless, it is clear that aggressive social pressure is providing an important psychological boost and economic incentives—especially as the traditionally active summer sales season arrives.

Lastly, the market's return to affordability—driven by home prices that now have a more realistic price-to-income ratio—will encourage investors to jump into the market and spur the next upward turn of the cycle.

4. New processes can offset the challenges of new regulatory pressures

Tighter credit policies and stricter verification structures are surely here to stay. Lenders and investors, however, can avoid the higher costs, slower closings and increased risk that the industry is expecting. Most lenders would agree that there has been room for improvement within mortgage lending for quite some time. However, why would anyone bother changing processes during the peak?

The time for improving those processes is now, starting first with the most costly and time-consuming. One example is the loan fulfillment process. Because no one wants a return to the grueling old days when it took days or weeks to verify all of the borrower's information, a proven and streamlined approach to verification can bring benefits throughout your entire lending operation.

In fact, launching a new, streamlined approach to verification will put you well ahead of the competitors who

struggle to adapt. And you can succeed by avoiding higher loan processing costs, while freeing your staff for more critical tasks.

Independent loan verification from a trusted expert passes those burdens to a specialist, offering increased investor confidence, complete transparency, more consistent turnaround times, reduced costs and enhanced productivity.

5. Independent verification is available as protection against fraud and buybacks

Criminal schemes and fraudulent "white lies" from borrowers have surely made life far more difficult for everyone else. As a result of the strict new policies adopted by investors and insurers, lenders are now more susceptible to severe repercussions and sanctions brought about by the most devastating risk to loan security: The innocent error made by an insider.

By trusting a reliable third-party loan verification expert, you can be sure of your information with representation and warranties that protect you from errors that cut into your profitability. Combine that with the trust and transparency gained by adopting a truly independent verification process, and it becomes clear that independent verification is a proven approach for ensuring safe, secure, and reliable loans.

It's time to take advantage of this uncertainty.

Everyone knows real estate is cyclical. Busts follow booms and vice-versa. Even historically turbulent times like we're experiencing now will eventually come to an end. Retooling your processes to improve mortgage performance will mean that you will maximize your profits and gain a competitive advantage that will serve you well now and when volumes climb again.

Getting everyone on the path to recovery will take a tremendous effort from everyone in the real estate industry. And while it will not be easy or overnight, the power of belief will inspire some to see the opportunities in every challenge and reward those who position themselves well for this new era of mortgage lending.

Robert N. Arrington has served as Kroll Factual Data's senior vice president of sales since 2004, a provider of independent verification services to mortgage lenders, banks, credit unions, property management firms, and other businesses. From 2000-2004, Arrington was involved in various management positions with the company, including acquisition and sales. He is a graduate of the University of San Francisco with a degree in business administration and earned an MBA from the University of the Incarnate Word in San Antonio, Texas. He may be reached by phone at (800) 929-3400 or e-mail barrington@krollfactualdata.com.