



Storm Tracker

Enhanced loan level data needed to weather new investor requirements.

IN RECENT MONTHS, our country and its citizens have been plagued by disastrous tornados. As the lucky ones, watching from afar in empathy and hope as families pick through the wreckage, we can't help but feel kinship and sense of community. As Americans, we want to know why this is happening and we look to science for answers on preventative measures for the future.

It calls to mind the 1996 blockbuster "Twister," where an intrepid team of storm chasers skirt churned swaths of devastation too close for comfort, pursuing the almost unthinkable goal of mapping a tornado's internal physics. The storm tracker's mapping technology, called Dorothy in the film, was the screenplay version of a

real life meteorological experiment code named Totable Tornado Observatory, or TOTO. Its goal was to gather readings of altitude, speed, temperature, light, etc., from within the tornado to enable more accurate modeling and predictive analytics.

Art imitating life the way it does, we find our own economic "twister" comparable to the film's villainous lead character. However, unlike the springtime tornados of 2011, the funnel that hit the mortgage industry in 2008 was a man-made disaster. Although not a random event—the mortgage meltdown was an event of carelessness if ever there was one in consumer lending—the "Twister" analogy resonates because it too was indiscriminant in its destruction, leaving winners and losers with caprice.

Several apt "Twister" analogies could be made, but let's focus on Dorothy's role, and the need to leverage technology and new innovations that gather and protect data to create a less risk-imbued mortgage lending industry capable for the return of the securitization model.

Dorothy was meant to deliver a symphony of data about tornadoes captured by sensors tossed into a live vortex. Unfortunately, she was far less elegant when the rubber (and livestock) hit the road.

Similarly, the tools that our industry has been using to monitor and track loan pipelines fall short in terms of enabling the accurate modeling and predictive analysis required to lend for securitization.

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Let's be mindful that mortgage technology providers have delivered what mortgage lenders have been willing to buy. It is difficult to persuade a business to gird itself for an unprecedented disaster. Clearly, the inadequacy of our tools is another symptom of the much larger cause.

When the end game was loan quantity regardless of quality, we lacked the motivation to gather, work with and make decisions based upon ample accurate data.

Both qualities are required. For data to be meaningful it must be ample—that is, sufficient in scope and depth to a degree that it provides a reliable view of reality. It must also be accurate—that is, precise and correct so that decisions based on the data consistently have the anticipated outcome.

Just think of data this way—if it isn't ample and accurate, it isn't meaningful. Reliably depicting reality and reaching anticipated outcomes are the building blocks of credibility in the world of sustainable securitization.

As with the film, our primary objective must be the inspired, innovative deployment of technology capable of managing, fact-checking, proofreading, conveying and tracking mortgage loan data throughout an unpredictable lifecycle. Best of breed, end-to-end, residing in a cloud or a server—we do not have that now. There's a lot of best efforts going on, but no one is pulling it off.

A crisis of confidence lingers over the mortgage industry in no small measure because it is not known for taking pride in the craftsmanship of its product. Its shoddy standards have been spotlighted in congressional chambers; its quality control practices have been pilloried in the press; and its reputation for passing the buck on accountability is spread to the four winds by the Internet. Our data handling habits have earned a reputation for carelessness.

Maybe that explains pundits, talking heads and self-proclaimed experts who are fond of comparing mortgage lending with other mass-market production. We are, according to their thinking, manufacturing loans from raw materials and more often than not, satisfied to market the product as a commodity.

We take vigorous exception to this mindset because it is shortsighted and reflects a devil-may-care value system. It offers no vision for a vital housing/finance/marketplace relationship.

By definition and nature, trading commodities is speculative. This explains why the industry faces an uphill battle in regaining confidence. Even now, with damage lingering from our industry's tornado, we are an industry creating instruments for securitization based upon a commodities trading mindset.

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So, we need to get our heads wrapped around mortgage lending for securitization standards and insist on enabling technology that manages our processes to that standard.

Today, we are an industry that will survive only if its vitality is restored by private investment liquidity.

Our nation's citizens and many political leaders refuse to extend our allowance or cover for our miscalculations any longer. The U.S. mortgage lending industry is suspect.

That's why, from this point going forward, mortgage lending for securitization will demand best practices origination and flawless fulfillment via a transparent platform visible to every party with skin in the game. To accomplish this, we need to take a non-ideological view of both the data and the critical steps for forestalling data degradation in the future.

From its vantage point as a technology-driven outsource service provider to hundreds of lenders, Titan Lenders Corp. has learned that creating a mortgage lending for securitization model requires the following characteristics: appropriate transparency for all stakeholders, zero-defect data-based decision making, acceleration to ensure effective secondary strategies, and perpetual traceability to ensure accountability.

It will take time to fold in all the stakeholders, from borrower to lender to investor, including warehouse line providers and servicers. It is time well spent, though. We can't afford to wait until another tanker skids into our windshield to embrace the inevitable changes that are needed to improve the mortgage industry.

Prior to 2007-2008, the standard operating procedure for mortgage lenders had been to throw nearly anything into the LOS vortex with no expectation of seeing it again. Underwriting would take care of it, and what was not fixed in underwriting, closing, or post-closing probably wouldn't be noticed.

In truth, until that 18-wheeler came careening out of the sky followed by a somersaulting combine, the typical mortgage lending operation would just as soon have remained ignorant about the amplitude and accuracy of data being tossed around inside the vaguely (at best) understood securitization process.

The industry has had an adjustment of perspective because anyone left probably survived the terror by clinging to the plumbing in prayer, and in large part because the terrain has been unfamiliarly rearranged.

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The government-sponsored enterprises are practically the only game in town and their investors—the U.S. taxpayers—are eager to fold. Regulators are conducting themselves in an unmistakably regulatory manner, of all things, hammering servicers, investors, lenders and originators to provide a quality product with accurate data.

Make note, persistent hammering by regulators will drive profitability from servicers and other third-party providers, spurring their retreat from the market and raising the risk management bar for those remaining. Rest assured, third-party service providers, as well as lenders, will have a new relationship with data henceforth.

Here is a vision for proceeding into a future in which the bulk of residential real estate finance is created through private securitization and investor markets.

1. Mortgage lenders will institutionalize loan level review at critical points throughout origination. Loan level reviews will be conducted specifically to identify and resolve compliance issues that will create lender liability at closing.

2. Mortgage lenders and investors alike are likely to adopt universal whole loan purchase review pre-closing and pre-purchase, respectively. For the lender, this will virtually eliminate the specter of buybacks. For investors it will create a proof of quality that should ensure higher ratings.

3. Loan level review will also become standard for servicers who want to sidestep penalties; and warehouse lenders that become wary of holding the bag too long for uncertain lenders.

One of the most persistent and frustrating obstacles to pursuing loan level review and whole loan purchase review as a standard operating procedure is the data disconnects that interrupt workflow.

Those disconnects make loan level review a manually intensive process that draws down precious time and human resources from dealing with new loans coming into the business.

Both loan level review and whole loan purchase review could be conducted electronically if the data and the paper/hard-copy image matched, but due to the entrenched disparate loan origination silos from the Fannie Mae automated underwriting system to the loan origination system to the

doc prep system, there is no system of record from which to pull the data.

Further, since there are no industry standard processes, no data standards other than those set out for the data structure, and no standard doc set, it is problematic to create a standardized loan review protocol.

At the end of the day, this lack of process and data standardization or a defined ultimate system of record poses a significant systemic impediment to restoring private investor confidence in the mortgage industry's ability to lend for securitization.

It is our opinion that the industry would be better served by hammering on the creation of a more accurate model capable of predictive analytics than griping about regulation.

That's why, like the unflagging, open-minded team of tornado chasers in "Twister," mortgage lending technology providers and users need to focus on how to gather, manage and interpret meaningful data, so that private investors will know that we know what we're doing. **MT**

Mary Kladdé is founder and president and Ruth Lee is senior vice president, sales, at Titan Lenders Corp. in Denver.

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"Now the developer can make sure they actually did test everything," Baker said. "By doing so, not only did we take all that onus off the development staff, we put the labor back where it belongs. We also help the developers improve the quality of what they were turning over." Using this method, application quality has risen and defects have dropped.

Baker has also begun using the software to comb through his group's three million lines of code to look at the different languages and application

tools being used, such as C++, COBOL, Visual Basic and PowerBuilder. Baker estimates there are 45 to 50 different technologies being used.

"You have to have at least two people on staff that know every one of those technologies," Baker said. "We made a hit list of the technologies we're going to obsolete and take out of our mix" to reduce technical debt.

"The more code you put out there, the more of your technology spend you have to use each month to service the code that's in production, maintain it and keep it current. So even if we didn't have any defects and the only thing we had to do was keep up with IRS legislation, the

more code we have out there, the more money it costs us to keep it current and compliant with the legislation."

The Cast tool also helps Baker identify opportunities for code reuse. By creating certain chunks of code and reusing them elsewhere, the developers can make a change or a fix once and have it be distributed throughout the retirement programs.

"We're looking at what features and functionalities we can convert and re-deploy it as a service by putting it out on our service bus and making it consumable by all the different programs that need it, therefore further reducing our technical debt," Baker said. **MT**