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VIEW IN BROWSER

No More Shadow Banking!

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"The ultimate result of shielding men from the effects of folly is to fill the world with fools." -- Herbert Spencer, English philosopher (1820-1903)

Daily, news comes to light that lenders and investors continue to struggle with their execution of critical loan review processes--even when the purpose is to help clear away the toxic wreckage that is barricading the industry's restoration to health and credibility.

This is redolent of the **Loan Quality Initiative** (ah, LQI--summer 2010's good intentions gone astray). It too, died when political headwinds shifted and public outrage passed to another catastrophe in this never-ending drama bomb known as the Mortgage Meltdown. However, can we really expect anything approaching transparency when the industry is short-selling its losses--and the investor is the American taxpayer?

We have exhaustively talked about the importance of loan level review, so for the purposes of this article and our copious blog posts, here is a good rule of thumb: if your car is going to fall off a cliff in 1,000 yards, checking the road is equally unimportant at 500 yards as it is at 1,500 yards. This is especially when it is the brakes that will save you. As they say: "just saying."

Titan's worst fear is that we pass through this miserable experience, and we learn not one lesson that needed to be learned and remain blind to the dangers we, as a society, collectively courted. We already ignore historical lessons as quaint and inapplicable--but three years ago? With the American public looking fatigued in their "mortgage outrage," can we afford to squander every opportunity to address real reform that could truly build a healthy new securitization market?

Ongoing "strategic moves" by **Bank of America** reignited uncertainty in late summer and offers another example of the tail wagging the dog. At bare minimum, it corroborates our suspicions that even at these rarified business circles, we all fall sway to self-preservation and pleasing the customer. And, in this case, that customer is SO BIG--it fills both sides of the negotiation table. How is that "too big to fail" thing working out? (wink) Isn't this interesting in light of the most recent move by BofA to pull out of correspondent lending?!

Our only hope is that in the gradual return to sanity, the real customers--and let's be straight on who they are: INVESTORS--will return and their demands will be very specific. We think it will sound a lot like this:

"We are your investors and the U.S. government has left the building. Without us, you have no liquidity. We have a very well documented understanding of your good faith mistakes and blatant criminality. We are over the 'ratings agency' promises. We don't trust your indemnifications, and investors don't get bailouts. Losses come in real dollars and jobs, not in 'shadow banking' losses using inventive investment vehicles. And there is both ample technology available and waste to be pared from the process to ensure that getting it right doesn't make it cost-prohibitive for the borrower. 1995 is calling and it wants that argument back."

And yes, there will be a next time around if we don't learn from our past mistakes. No more "shadow" banking! We mean that both figuratively and literally.

*(The views expressed in this article do not necessarily reflect the view or policies of the Mortgage Bankers Association. MBA NewsLink welcomes your articles; submissions/inquiries should be sent to **Mike Sorohan**, editor, at msorohan@mortgagebankers.org.)*