

SOLVING THE MORTGAGE CRISIS: ONE LOAN AT A TIME

By Bill Kelvie, CEO

Overture Technologies

EXECUTIVE SUMMARY

The current mortgage crisis is unprecedented in its scale and impact, seemingly outstripping efforts to contain and control it. Information that exists to begin to manage it appears to be too fragmented and dated to gain real traction.

The solution that is required will necessarily address three issues: First and most immediate is to stem the ever-rising number of foreclosures through better *loss mitigation* techniques. Each distressed borrower should be presented with work-out options other than foreclosure, which is the most expensive in terms of economics and the impact on the family and community. Today, it is estimated that half the loans going into foreclosure do so with virtually no contact between borrowers and the lenders who service their loans.

The second issue is *price discovery* – the thorny problem of determining a value for a mortgage-backed security when a ready, continuous market no longer exists.

The final issue is one of *oversight and management*, to gather information about what is working and what is not, as well as to combat waste and fraud.

One innovation – *Overture's Re-Decisioning* – can be applied to address each of these issues. Overture Technologies is a pioneer in automated underwriting systems and has adapted its solutions to deal with distressed mortgages. Overture's Re-Decisioning incorporates current information about the borrower, such as a fresh credit report, income and property value, thereby permitting a thorough and realistic analysis of what loss mitigation options are available.

This analysis can be extended into an estimated cost of the work-out and therefore a much more informed value of the loan and the security in which it might exist. It is a “bottom-up” valuation that is far more accurate for price discovery,

This Re-Decisioning process can be automatically performed on thousands of loans in a matter of minutes, permitting a national level of management and control. It is estimated that over ten million loans may ultimately be at risk. Re-decisioning could be applied to a database of that size and used for ongoing surveillance, stress testing and management.

APPLYING LOAN-LEVEL RE-DECISIONING TO LOSS MITIGATION

Loan servicers face huge uncertainty. Many of their loans were inadequately underwritten and priced in the first place, property values in some areas have declined much more than national or regional averages and circumstances have changed for many borrowers.

Eventually - and the sooner the better - every distressed loan will be examined and a work-out path chosen. Loan servicers need tools and information to get ahead of the problem. In order to manage the volumes of troubled loans and facilitate the rapid turnaround times demanded by the market, appropriately applying decisioning technology is the only viable solution.

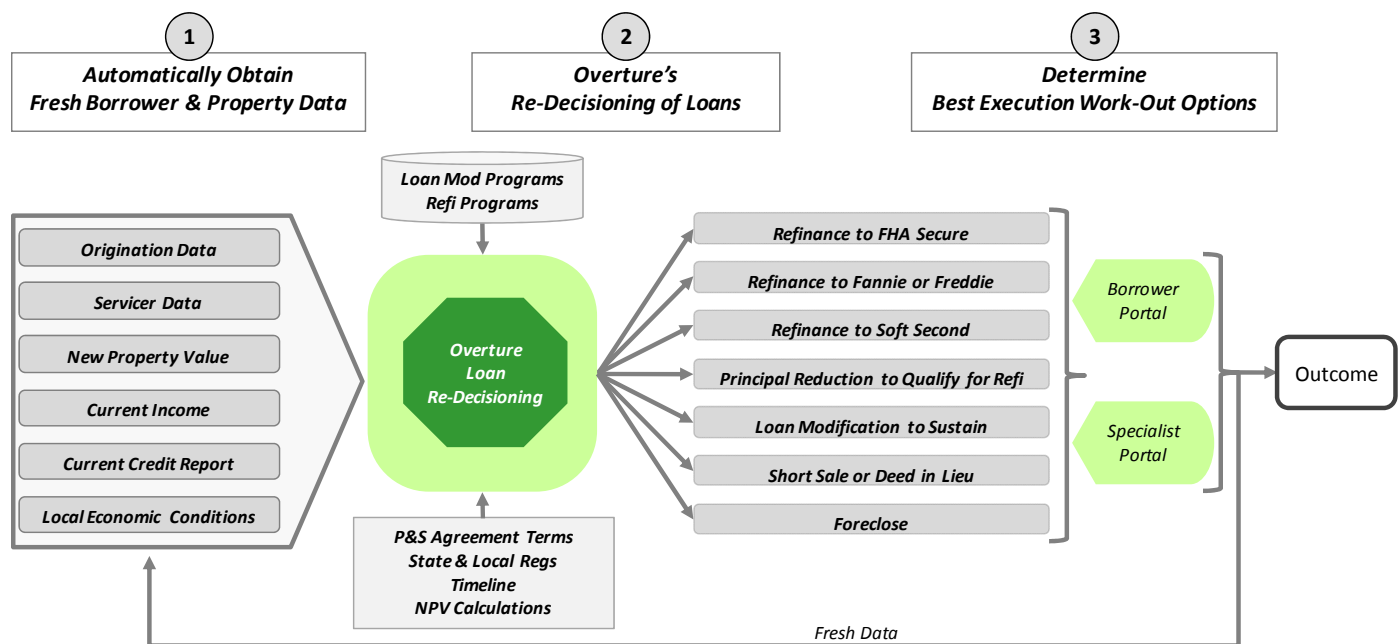
Overture's approach has four primary components, which work in concert:

- Information Refresh
- Loan Re-Decisioning
- Loan Modification Specialist Portal
- Borrower Portal

The first step in loss mitigation is to automatically gather and organize a full set of refreshed loan data, including existing loan data from any source, plus current payment patterns, current credit report, current property value from AVM models, current employment status and level of income and econometric trends, such as local home prices and employment rates.

The decision engine then applies rules-based loan modification guidelines (e.g., repayment plans and debt forgiveness, as well as refinance options such as FHA Secure or H4H) to enable the evaluation of a given loan against a robust set of potential options to avoid foreclosure.

The *Loan Modification Specialist Portal* is the internal view of results that enables loan modification staff to see the array of options, rapidly process and update key data and facilitate the loan modification process using a decision-centric approach. The *Borrower Portal* is a consumer-facing web site that securely facilitates the interactions between borrowers and servicers.



Overture's Re-Decisioning can automatically and quickly determine the best work-out approach for thousands of loans by assessing each loan, with current borrower and property information, against multiple different scenarios.

LOAN LEVEL PRICE DISCOVERY: POWERING AN AUCTION

The same loan-level re-decisioning that improves loss mitigation could power a bottom-up approach to price discovery.

Buyers and sellers of mortgage-backed securities have typically required access to only a thin set of loan origination data. Risk models assumed loans were originated by responsible lenders, and borrower data was not updated.

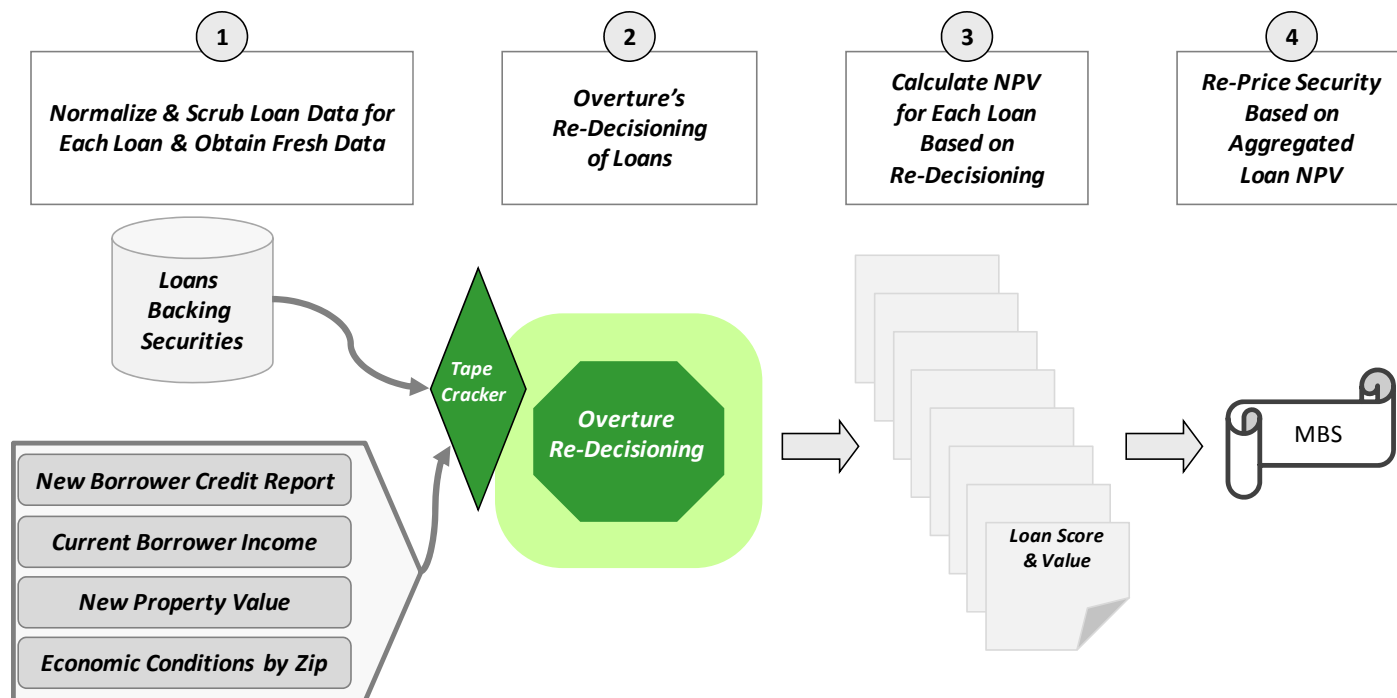
A more intensive and granular approach is required, but prospective buyers and sellers have been unable to act due to opaque or missing loan-level information. A prospective purchaser of a mortgage-backed security does not have ready access to the loan origination data. Where the loan data is available, it is frequently difficult to decipher.

Overture's system can provide the solution. It is built on two innovations.

First, it organizes the loan data. Using a sophisticated *Tape Cracking* module, existing loan data is scrubbed and normalized. Loan data then can be supplemented with a new credit report, new property valuation and more.

Each loan is then re-underwritten using the refreshed data set against multiple eligibility and pricing criteria. Loans at risk can be analyzed to estimate the cost of a workout. The cost of the most likely workout scenario can inform an accurate net present value determination for each loan.

Overture's system is built to be extremely fast and robust and is proven capable of processing very large numbers of full loan files in a real time environment.



By gathering and organizing loan-by-loan detail, including new borrower and property information, each loan in a pool can be priced, thereby enabling a "bottom up" approach to pricing a mortgage-backed security.

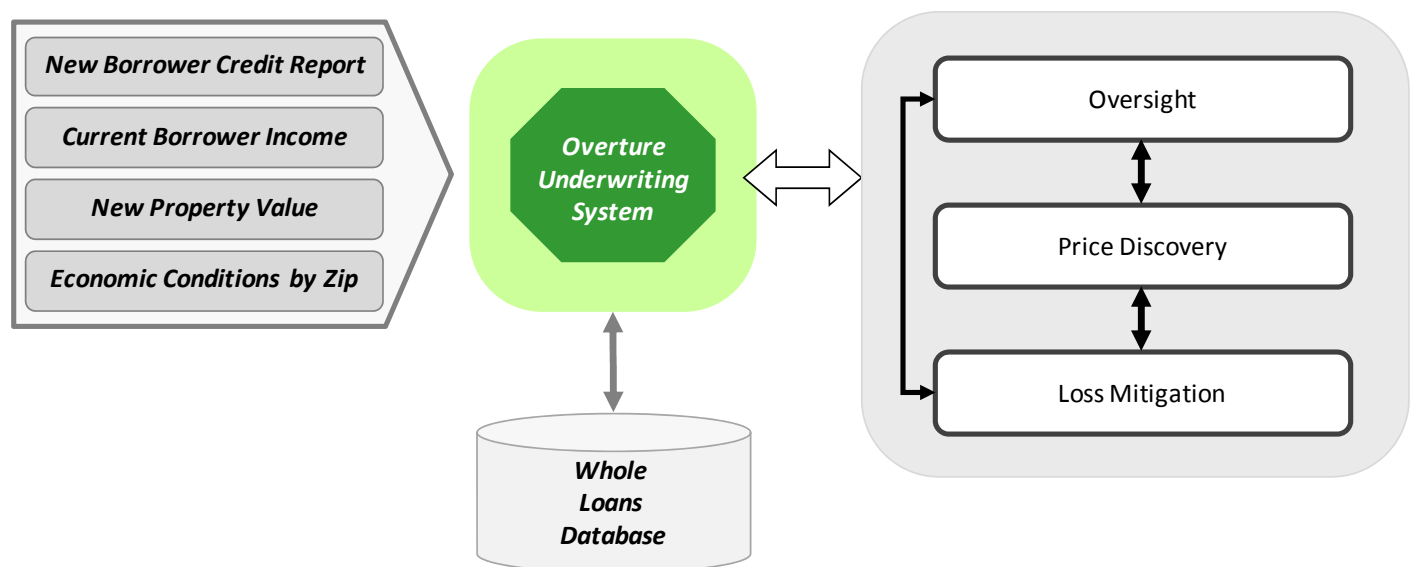
ESTABLISHING ONGOING OVERSIGHT AND CONTROL

Once established, a re-decisioning program can provide strong ongoing controls. The population of distressed loans can be continuously analyzed to determine which methods are working and which are not. It will identify deviations from expected pricing patterns and trends, providing an early-warning system to those charged with oversight.

Such a system will also provide policy-makers and industry with options on building a database of loans to enable oversight and analytics. Overture has developed a strong simulation capability to test assumptions and trends. This capability could be used to determine the impact of new programs at both the national and regional level.

It could also perform ongoing surveillance, examining trends around employment and credit usage. In essence, the control scheme could operate as an aggregate of the detailed loan-level used for loss mitigation as well as the security level.

This approach is described in the figure below.



About Overture Technologies

Founded in 2000, Overture Technologies is the leading provider of decisioning software solutions that enable transparent, accurate and flexible financing processes. Overture's customers are dedicated to providing superior mortgage underwriting, servicing and securitization services and to increasing lenders' and borrowers' access to mortgage financing alternatives. Our leadership team applies decades of experience from leading financial services and technology firms including Fannie Mae, Freddie Mac, Goldman Sachs, IBM and KPMG to helping our customers achieve their objectives.

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