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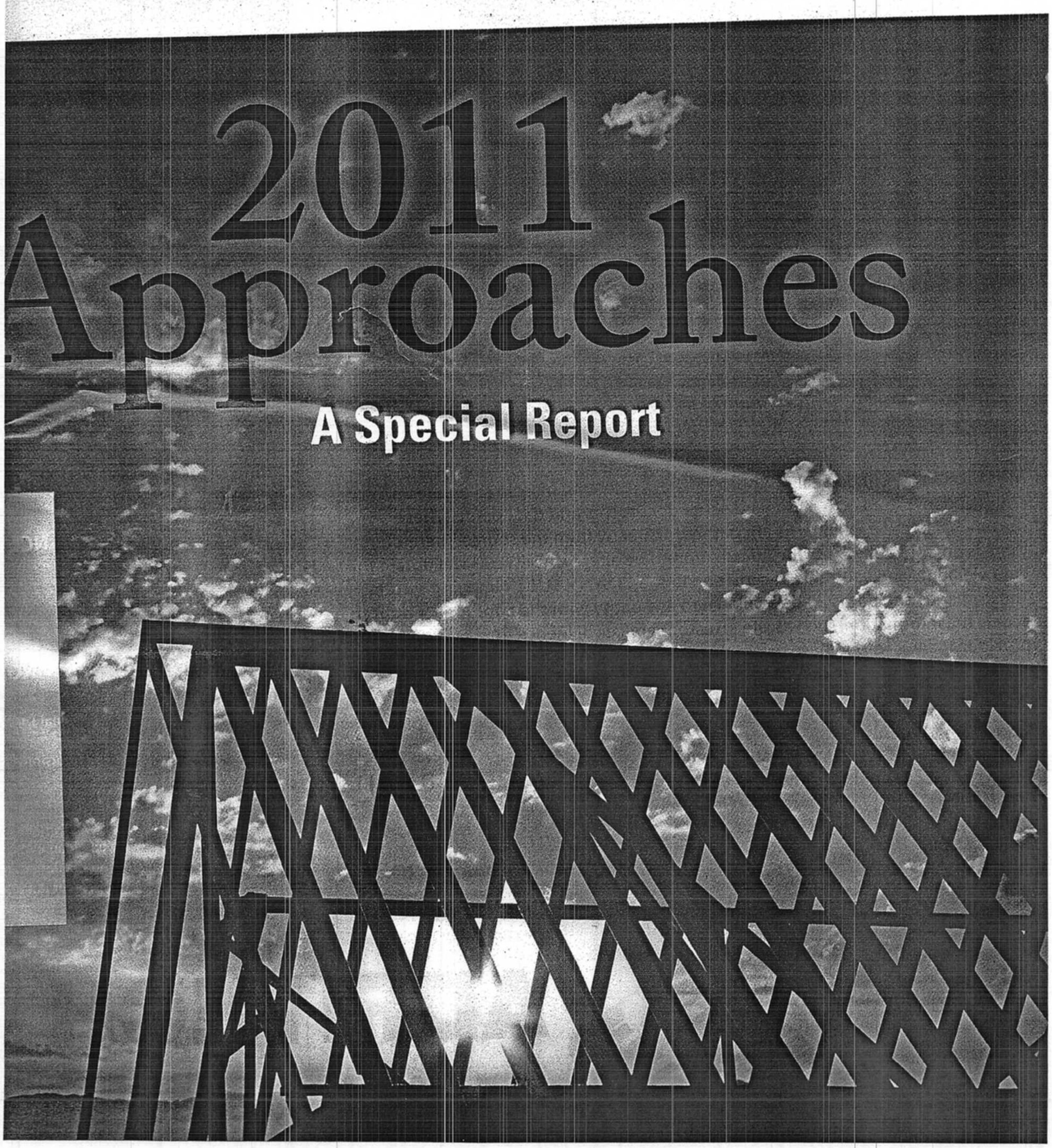

YEAR IN REVIEW/ YEAR AHEAD

The Contradictions Of 2010 Shape The Challenges For 2011

The annual year-end roundtable discussion examines the significant changes within mortgage banking.

By Phil Hall

It was the year of a 2,300-page rewriting of the financial regulatory system, but also a year of inertia on reforming the state of the government-sponsored enterprises (GSEs). It was a year that put "robo-signing" and "foreclosure-gate" in the dictionary and Redwood Trust on the map, but it was also a year when mortgage fraud remained firmly in place. And it was the year when economists stated the recession was history, but economic recovery still remained elusive.

For its annual review of the closing year and preview of the coming year, ***Secondary Marketing Executive*** has brought together 14 experts to dissect the challenges that the industry faced - ranging from external tumult on Capitol Hill to internal difficulties impacting daily operations. Participating in this roundtable discussion are, in alphabetical order:

■ Jean Badciong, senior vice president and chief operating officer of Inlanta Mortgage, Waukesha, Wis.;

■ Jordan Brown, CEO of Market-

and Financial Markets at the Hudson Institute, Washington, D.C.;

■ Dick Wertzberger, senior vice president of mortgage banking at Landmark National Bank, Manhattan, Kan.; and

■ Richard Zahm, portfolio manager of the Second Angel Fund I, Darien, Conn.

Q: How would you categorize the state of mortgage banking in 2010?

Scott Stern, Lenders One: It has been one of the most interesting years, in that it has been two diametrically opposed half years: The first half of the year was very slow, with not a lot of refinance volume. At the same

fundamental change and challenges to existing business processes. It was a defining year of loan modifications as a new source of origination. Short sales became a core component of existing-home sales.

A.W. Pickel III, LeaderOne Financial: This was the year of A-paper, tighter underwriting guidelines, good-credit-quality borrowers, good collateral and strong documentation. This book of business should perform very, very well.

Bob Dorsa, ACUMA: It was the year of the refinance - again!

Q: This year saw the passage of the Dodd-Frank Act. What impact

us is the loan-officer compensation rule. It puts the origination channel into a blender, with everyone endeavoring to come up with their own compensation methodology that complies with the law while holding on to their sales force.

Richard Rydstrom, Coalition for Mortgage Industry Solutions: The legislation will be used as the backdrop to mandate third-party audits with respect to the foreclosure-gate issues - not only for consumers, but also for industry counterparties. For example, title companies will require greater warranties or indemnity from lenders or originators against foreclosure-gate liability. This will allow products to sell, but the fallout will cost lenders. Also, all industry counterparties will soon step up and require their positions to be indemnified.

Richard Zahm, Second Angel Fund I: The act requires regulations governing the risks retained by the securitizer. It may reduce the 5% risk retention where loans pose a reduced risk of default. All of these, however, [illegible] discussion are, in alphabetical order:

■ Jean Badciong, senior vice president and chief operating officer of Inlanta Mortgage, Waukesha, Wis.;

■ Jordan Brown, CEO of MarketWise Advisors LLC, Ponte Vedra Beach, Fla.;

■ Jim Deitch, CEO of American Home Bank NA, Mountville, Pa.;

■ Bob Dorsa, president of the American Credit Union Mortgage Association (ACUMA), Las Vegas;

■ Alex Epstein, fellow at the Ayn Rand Center for Individual Rights, Irvine, Calif.;

■ Mark Fleming, chief economist at CoreLogic, Santa Ana, Calif.;

■ Steve Hops, senior vice president of Guild Mortgage Co., San Diego, and chairman of the California Mortgage Bankers Association (CMBA);

■ A.W. Pickel III, president and CEO of LeaderOne Financial Corp., Overland Park, Kan.;

■ Richard Rydstrom, chairman of the Coalition for Mortgage Industry Solutions, Los Angeles;

■ Scott Stern, CEO of Lenders One, St. Louis;

■ Steve Verdier, executive vice president of the Independent Community Bankers Association (ICBA), Washington, D.C.;

■ John Weicher, senior fellow and director of the Center for Housing

time, there was the implementation of new Truth in Lending rules and Good Faith Estimates, the resources were allocated to regulatory compliance. The latter half has been very high volume - the industry is moving 100 miles an hour trying to meet capacity. As rates have gone down, refinance volume has been very strong. One consistency is that regulatory issues in the second half are as equally challenging as in the first half.

Jean Badciong, Inlanta Mortgage: We started out with a dramatic decline in the first quarter, but the remainder has been exciting, busy, productive and overwhelming. We continue to ride the roller coaster.

Jordan Brown, MarketWise Advisors: In terms of origination, in all measures, it was a good year. On the other side of the coin, it was a year of

will this legislation have on the mortgage banking industry?

Mark Fleming, CoreLogic: It is so hard to tell, because the act itself leaves many of the details of implementation up to the regulatory process. It will depend on how the regulators decide to frame and enforce the regulations and specify things more tightly over and above what the act says.

Alex Epstein, Ayn Rand Center for Individual Rights: It was necessary to do something in response to the financial crisis, which was caused by government manipulation of housing and finance. But the Dodd-Frank Act gives us much, much more government manipulation of housing and finance.

Steve Hops, Guild Mortgage and CMBA: The biggest element for

to be indemnified.

Richard Zahm, Second Angel Fund I: The act requires regulations governing the risks retained by the securitizer. It may reduce the 5% risk retention where loans pose a reduced risk of default. All of these, however, could be dramatically overshadowed by foreclosure-gate. The attention of the new Consumer Financial Protection Bureau could pivot to home loans, and the states could take an enormous, new role following the current 50-state attorneys general investigation. The servicing industry could expect to be under very tight review, resulting in strict requirements.

Jim Deitch, American Home Bank: The Dodd-Frank Act appears very unfriendly to mortgage brokers. Mortgage brokers' market share continues to decline and will be one of the major casualties of the Dodd-Frank Act.

Q: GSE reform was put off in 2010, with the promise of being addressed in 2011. Do you feel this was the right thing to do?

Steve Verdier, ICBA: Yes. That is such a huge issue. People don't realize that there are 535 members of Congress, and there is a limit to the amount of work they can do. I don't think Congress could have done it - if they did, it would have been difficult.

Steve Hops, Guild Mortgage and CMBA: Given the delicate nature of the financial system and the housing market, it was probably the only thing that could have been done.

John Weicher, Hudson Institute: Putting it off to next year means putting it off to a new Congress, and who knows where that Congress will go on that issue.

Dick Wertzberger, Landmark National Bank: Reform has to happen. Fannie and Freddie are essentially wards of the state. And who needs two GSEs when the guarantee of the mortgage-backed security (MBS) is being made by the government?

Q: What do you think is going to happen to the GSEs in 2011?

Bob Dorsa, ACUMA: My guess is that we will see their consolidation. I am not sure who the survivor will be or what the entity will be called. There is need for a government-sponsored entity, but I am not sure if the government is comfortable with the amount of volume going through the Federal Housing Administration program. The government has not planned for this big of a stake in the housing market.

Jim Deitch, American Home Bank: I don't foresee any major changes. The political agenda will be focused elsewhere and will not coalesce into GSE reform.

A.W. Pickel III, LeaderOne Financial: We need to be very careful in a market like this, where the GSEs are the only ones that are giving the guarantee to the only MBS being sold. Obviously, we need reform. In a number of ways, Fannie and Freddie have provided liquidity at a time when the housing market needed it the most.

Alex Epstein, Ayn Rand Center for Individual Rights: These are among the fundamental villains of the housing crisis, and the idea that they will be maintained indefinitely is very scary.

Q: Earlier in 2010, the Redwood Trust securitization announcement was the first private-label MBS breakthrough since the recession began. But so far, there have been no additional announcements along those lines. In your opinion, what happened?

Richard Zahm, Second Angel Fund I: Redwood wasn't especially big, and home prices were continuing to fall. Alternative investments carrying less risk are available, which bring better returns.

Jordan Brown, MarketWise Advisors: There will be more like this in the future. Redwood Trust led the way, providing private securities and trying to reinvent that market to what's been on hold for two-plus years. It is all part and parcel of the core issue: rebuilding investor confidence, and improving data quality and transparency throughout the industry.

Steve Hops, Guild Mortgage and CMBA: My impression is that the Redwood Trust securities were based on the lowest risks in the marketplace. For an originator to put that together is difficult.

Jean Badciong, Inlanta Mortgage: It took them nearly a year to put the securitization together. To develop something like this, you have to be in the right market with the right investors.

Dick Wertzberger, Landmark National Bank: The government is trying to stimulate the economy by trying to keep rates low. It will be tough for private entities to keep rates comparable to those offered in Fannie and Freddie securities.

Q: What do you predict for the future of the private-label market in 2011?

Richard Rydstrom, Coalition for Mortgage Industry Solutions: Until we can implement a securitization structure or alternative structure that is comprehensive in its purpose in serving diverse financial product lines - to meet all levels of demand and need - private label will struggle to find its feet. And at this time, we are only at the very beginning of the process of learning what consumer products will make up the product lines. Outlawing diverse product lines will have a direct and negative effect on the ability to fill up the securitization pie - they are dependent and connected.

Richard Zahm, Second Angel Fund I: The securitization industry will likely be in the spotlight for much of the year. Securitization brings a lot of benefits, but it's not equipped to handle human error and basic issues like fraud and greed. Considerable attention will likely be given to how loans were reviewed prior to being pooled, and the big question will be whether the industry will disregard requirements designed to protect itself. On the positive side, the experience will help propel covered bonds to the forefront.

Jean Badciong, Inlanta Mortgage: I see more of the Redwood concept - I see investors trying to put those together in 2011, and I hope they are successful.

Q: Mortgage banking faced a new controversy surrounding the so-called "robo-signing" of foreclosure documents. What impact will this controversy have on the general state of mortgage banking?

A.W. Pickel III, LeaderOne Financial: I think it is a little overblown. I think that at the end of the day, the majority of those documents and foreclosures will be found to be accurate. The sheer quantity of foreclosures probably overwhelmed the systems, so that tells me that we need to improve our processes.

John Weicher, Hudson Institute: What you are seeing is judges who don't want to foreclose on everyone and political figures who are seeing foreclosures continue when they thought their loan modification programs put this crisis under control. The administration had a very calm response to not have a foreclosure moratorium. To me, it was unexpected, given that we are in a political cycle and the administration's Home Affordable Modification Program is under criticism.

Jordan Brown, MarketWise Advisors: We are getting to the crux of the basic processes in the mortgage industry that we need to examine: credit quality, innovation and technology. We have to change as an industry in terms of providing all benefits to redo the process to ensure that a foreclosure-gate never occurs again.

Mark Fleming, CoreLogic: It has boiled down to a procedural issue - the proper process of signing, notarizing and moving the loans through the foreclosure process has experienced a hiccup, with questions of whether it is being done properly. That being said, the vast majority of borrowers associated with those foreclosure filings have not been paying their mortgages - the question is less about whether one should be foreclosing and more about if they are following the legal process and if they have the right to do it.

Steve Verdier, ICBA: From a community-bank standpoint, we didn't make the risky loans that were subject to foreclosure, so it is not that big of an issue to us.

Q: The industry has also seen continued problems relating to mortgage fraud. Do you believe this problem will be successfully addressed in 2011?

Mark Fleming, CoreLogic: We only know about fraud when we find it - we don't know what we haven't found. We are getting better as an industry in identifying likely fraud, but fraud has always been there.

Jim Deitch, American Home Bank: A simple fact about mortgage fraud is that it is very profitable. Enforcement and prosecution resources are very difficult to come by.

Bob Dorsa, ACUMA: I think it will be addressed. There is more awareness, and better systems are in place.

Q: The U.S. economy has been very slow to gain traction for a full recovery. Can the delay in getting

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