

U.S. Can Identify Deserving Homeowners to Avert Foreclosures

By Using Existing Tools, Modifications can be Targeted to Those Who Played by the Rules

Orlando, FL – February 27, 2009. Is it possible for the Obama Administration’s new foreclosure-avoidance program to live up to its goal of targeting the people who played by the rules? “Yes we can” says Digital Risk, a mortgage analytics firm which models key performance drivers for originations, modifications, and securitization.

“Housing Secretary Donovan recently said that the Administration’s mortgage relief program is aimed at the folks who played by the rules, and some people are skeptical as to whether that can be done,” said Mr. Jeffrey Taylor, co- Founder of Digital Risk, which has conducted performance reviews of over \$83 Billion in performing and non-performing mortgage loans since the Housing market crisis emerged. “It’s definitely possible if the US uses available income information, predictive analytics and cross-verifications to ascertain income and borrower’s ability to pay. Moreover, if these systems are used for future mortgages, they will eliminate the re-occurrence of such problems, thereby stabilizing the industry and restoring confidence in our economy.”

In specific, Mr. Taylor recommends three key steps:

1. The US needs to change its rules concerning IRS Form 4506-T, Request Transcripts for Tax Returns, which is completed by every mortgage applicant to give the originator permission to verify income for a period of only 60 days. Eliminating the expiration date will keep the form “live” and enable all parties who own the loans (i.e., originators, servicers, and investors for modifications) to use the 4506T during the life of the loan to obtain updated income information from tax returns.
2. Organizations charged with modifying the loans can use cross-verifications of public records to indicate whether there may be material misrepresentations in the old and new mortgage applications. Underwriting guidelines usually require state that all sources of income and credit-worthiness be independently verified. When Digital Risk reviews applications, it cross-references key items (e.g., income, employment, housing history, and property information) with data in records from key public and private databases to ascertain the validity of employment and credit-worthiness.

3. Digital Risk then feeds the deep-verification findings into its sophisticated 360° Risk Analytics predictive model to suggest which applications may not qualify for modifications. For instance, the stated income may be totally inconsistent with the range reported for others in that line-of-work; an employer's alleged phone number may be registered to other people and/or cell phones; mortgagee's primary residence housing history may be inaccurate; non-disclosed mortgages may be found; and appraisal reports assessments of the cost of repairs may be inconsistent with the guidelines. The result is an ability to identify non-problematic applications, and those with questionable information, which may indicate that representations and warranties have been breached. This information is then given to the government agencies, banks, servicing companies and others involved with modifications.
4. Finally, due diligence experts at serving agencies take the "questionable" modifications and using a hands-on forensic approach obtain the information needed to recommend whether a modification should be granted, based on a thorough assessment of the likelihood of repayment, or not.

"If the government program equips the teams responsible for modifying loans with these tools, then it can target the people who deserve them, and modify the loans so they make sense for the homeowners and the banks," concluded Mr. Taylor. "In turn, as banks and the American public feel more confident that they are analyzing the situation completely this time, and using workable modification programs for deserving homeowners, the banks will be able to extend more and more credit into the marketplace – and begin the process of turning around our housing crisis and the economy as a whole".

About Digital Risk

Digital Risk is a next-generation mortgage risk mitigation solutions provider. Using "360° Risk Analytics" which integrate real-time fraud detection algorithms, predictive modeling, and forensic underwriting services, the Company pinpoints issues of creditworthiness, compliance and fraud so companies can properly value mortgages, loans and loan portfolios. It serves government agencies, investment banks, hedge fund and private equity firms, mortgage-backed security (MBS) issuers & securitization firms, mortgage originators, servicing firms, insurers and bond guarantors, and rating agencies.

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