

RISKSPAN RE-CAP

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RiskSpan, Inc. Named as Verification Agent

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RiskSpan, Inc. was named Verification Agent on a private advance facility that closed in August. RiskSpan will perform a monthly validation audit of the procedures specifically related to the facility. The validation will include specifics related to the servicing advance and the servicing advance recovery. The validation process will include but not be limited to a review of loan level and pool level

Short Sales as Potential Strategy to Mitigate Losses

With loss severities hitting 70% for some loan types, servicers need to consider an array of options available to manage loans before they enter the foreclosure process. These options include payment plans, forbearance agreements, loan assumptions, deed in-lieu of foreclosure, one of many loan modification programs, and short sales. Based on an analysis recently completed by RiskSpan, programs which support short sales can often be the most effective loss mitigation technique, particularly when the short sale process is managed efficiently. RiskSpan benchmarked several portfolios of distressed assets to determine the relative performance of servicers and their ability to efficiently execute short sales. In RiskSpan's sample analysis, severity on short sales are substantially less than on foreclosures. Further, RiskSpan's experience indicates that servicers with effective short sales strategies had a 30 day (or less) response to short sale offers compared to many servicers that average a 90-120 day response time. Notably, this variance will account for sizable maintenance and holding costs. RiskSpan analyzed information from its proprietary loan data. Loans liquidating prior to foreclosure or prior to moving to REO was used as a reasonable proxy for short sales.

Short Sale vs. Foreclosure Severity
Sample B/C Portfolio
Jun-09

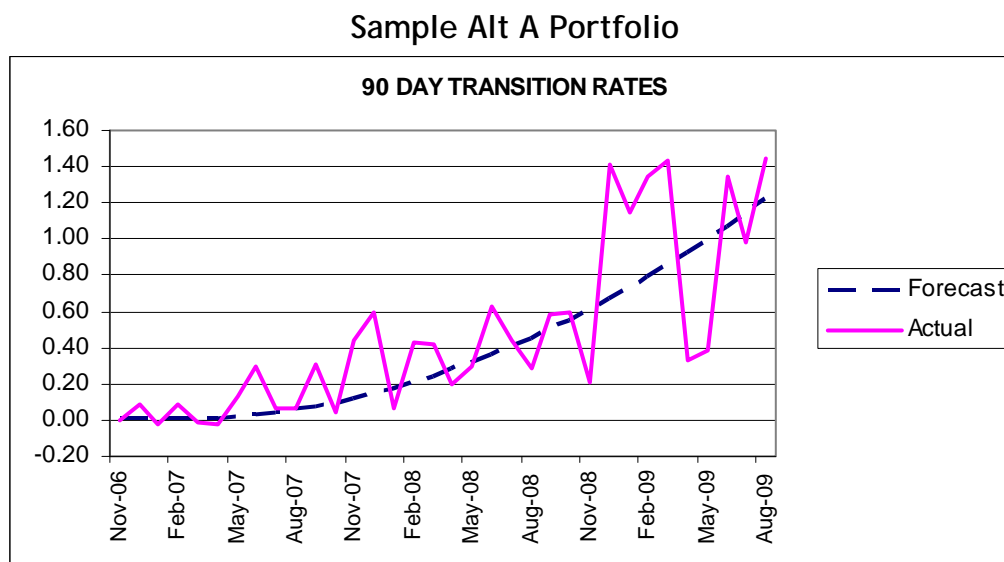
	REO Count	Liquidation Count	Short Sale Ratio	Short Sale Severity	Foreclosure Severity
Servicer 1	9	29	76%	23%	58%
Servicer 2	82	39	32%	39%	73%
Servicer 3	5400	4627	46%	40%	68%

Short sales are clearly not the only solution, but some servicers have effectively integrated up front procedures that line up BPO's and other steps that position them to move quickly when a fair market short sale offer is presented. Deciding which option can limit loss should be part of a 'data driven' assessment that takes into consideration the full range of scenarios and potential outcomes. RiskSpan's growing set of industry data is being used by our clients to provide insight and perspective on:

- Benchmarking portfolio and servicer performance
- Highlighting opportunities for loss mitigation
- Providing analysis to assist in managing servicing cashflow (particularly P&I, escrow and other advances)

Streamline the Reserve Process

According to the FDIC's Quarterly Banking Profile for 2nd Quarter 2009, FDIC-insured institutions reported an aggregate net loss of \$3.7 billion chiefly as the result of expenses around bad loans. These institutions added \$66.9 billion in loan-loss provisions to their reserves during the quarter, an increase of \$16.5 billion (32.8 percent) compared to the second quarter of 2008. Unfortunately, for many institutions, the reserve process continues to be cumbersome and often a series of models, spreadsheets and SAS code cobbled together. The result is a costly process and far from one that distills confidence of senior management and investors. Streamlining the process through integrated systems allows for a more accurate and reliable process and helps to restore investor confidence. For example, a key component of the process is the analysis of *actual* portfolio performance as measured by delinquency status transition rates. RiskSpan calculates the change in cumulative non-performance (CNP) - tracking the rate at which loans leave the population of performing loans and transition to a non-performing status likely to result in a loss. This information allows for the back-testing of estimates against actual experience or as the foundation of a loss projection methodology itself. Having access to tools that automate such calculations brings an institution closer to reliable results.



Other key factors necessary to establish a sound and effective loan loss reserve methodology include:

- *Portfolio Analysis*: Loss reserves should be based on comprehensive, well-documented, and consistently applied analysis of the mortgage loan portfolio especially around the credit quality of the portfolio (such as performance, concentration, product type, collateral type, loan-to-value (LTV) ratios, and borrower repayment capacity).

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- *Loan Quality Review:* An effective loan review system should be utilized to identify, monitor, and address quality problems related to mortgage loans in an accurate and timely manner. Management may need to segment a diverse mortgage loan portfolio using a credit grading system or loan classification to generate loss reserves for disparate populations. In addition, the depository institution's loan review system and controls must be responsive to changes in business and economic factors affecting the level of credit risk in the portfolio.
- *Loss Modeling:* Loss models and their assumptions should be documented and verified. The institution should document and support any adjustments made to the models or to the output of the models in determining the estimated credit losses.
- *Validation:* A process should be in place for validation of the loss reserving methodology and amounts. This validation should include a review of the institution's loss estimation processes and effectiveness.

RiskSpan will be demonstrating its proprietary analytics platform at the MBA's Annual Convention in October 10-12 in San Diego, CA. For more information on RiskSpan's consulting services, contact Bob Burrell (909) 480-3171.