from: Allison

an Internet portal to Fannie Mae's Desktop Underwriter automated underwriting system to qualify eligible borrowers for prime mortgages.

Loans that don't qualify for prime underwriting are kicked back to Saxon's AU system and if they fail to qualify there, they are routed for manual underwriting. "It's true risked-base pricing," Sawyer said.

The Saxon executive said he expects technology to be one of the main forces driving consolidation in the months ahead.

"We're going to continue to see consolidation because the investment in technology and economy of scale needed to get an application through the door is only going to increase," while high-cost producers are going to find it much harder to compete, Sawyer said. "We expect to see opportunities to pick up good people or good franchises at very attractive returns."

Non-Techs Can Flourish

But not everyone has hopped on the technology bandwagon. "We're really antsy about spending a lot of money on technology," said Robert Mercer, president of American Equity Mortgage. "We have to have reduced costs or higher revenue from any technology we take on. Most of the technology we've looked at hasn't had the kind of payback we are looking for."

So, how does such a company survive in the modern subprime market, where automation has become something of a mantra? "Spend money in the right places and build up cash reserves to get you through the bad times," Mercer said.

But the St. Louis-based lender has also benefited from remaining flexible. Normally, American Equity does about 60 percent of its business in subprime mortgages. But this year, that total will be closer to 40 percent, or about $850 million. It's that kind of flexibility, possible because of a diverse product line, that many observers believe is essential in the modern subprime market.

Like Sawyer, Mercer expects more consolidation among lenders this year. "Our business is really being shaped less by the states than by consolidation," he said. "Over the last eight, nine, or ten years, anybody could have started a company and survived for a while. But losses and prepayments come very fast in this business."✦

Downgrades Could Leave Fairbanks' Future in Flux

Beset by investigation into its servicing practices and a series of rating agency downgrades, Fairbanks Capital has shuffled its senior executives and announced several new servicing initiatives.

"We have developed a multi-point program fo[r] improving the company's approach to compliance, fees and controls," said James Ozanne, a former Fairbanks board member who was named CEO of the Utah-based company last week. In addition to Ozanne, Fairbanks announced that Brad Shuster had been named chairman of the board and Alex Makowski had been added as director.

Ozanne replaced CEO Tom Basmajian, who will remain with the company to assist with constitu[u]ent relations. As CEO, Basmajian helped shepherd Fairbanks to a position of prominence in the industr[y] –the company was the subprime market's top servicer last year, managing a book of business that totaled $49.9 billion.

But the reshuffling suggests that Fairbanks' two primary owners, mortgage insurer PMI Group and financial guaranty firm Financial Security Assurance, are eager to get a handle on an increasingly precarious business situation at Fairbanks. Shuster and Ozanne were appointed to the board as delegate[s] of PMI and FSA, while Makowski is a managing director at FSA.

The new executives will be charged with overseeing changes that officials hope will help the company deal with a rash of borrower complaints that have led to investigations by state and federal regulators, as well as Freddie Mae, Freddie Mac and the rating agencies.

Specifically, Fairbanks said it will establish a consumer outreach committee, which will be led by PMI representative John Fulford. The company is also setting up an ombudsman's office, to assist borrowers in resolving disputes, and it is working on the development of a borrower's bill of rights that will "ensure all company employees understand the importance of best practices in this area."

Whether those initiatives will be enough to satisfy critics is unclear. But Fairbanks has clearly seen the heat turned up on several fronts in recent days.

In an April 15 letter to Sen. Barbara Mikulski

D-MD, for instance, HUD's Inspector General confirmed that it had opened a criminal investigation of Fairbanks, which is an approved servicer of government-insured mortgages. The agency said it has interviewed all of the alleged victims who testified at a March 17 hearing in Baltimore, and established a hotline that has fielded some 253 complaints about the company.

While not revealing any findings, the OIG said it has devoted resources in two offices to conduct "daily investigative activities" in Maryland, Utah, and Florida. "This is a matter we are aggressively pursuing," wrote IG Kenneth Donohue.

Ratings Downgrades

More troubling for the company in the near-term, however, are recent downgrades of its servicer ratings by Standard and Poor's and Moody's Investors Service.

In a statement issued last week, S&P said it had lowered Fairbanks special servicer ranking to "Below Average" while removing the company from its "Select Servicer" list. Meanwhile, Moody's Investors' Service cut its rating of Fairbanks from SQ1 to SQ4, its second lowest grade. The downgrade was the first since Moody's started rating servicers more than a year ago.

Meanwhile, Fitch Ratings placed Fairbanks' RPS1 subprime and special servicer rating and its RSPS1- Alt-A servicer rating on review for possible downgrade. The rating agency said that it will complete a "targeted" on-site review of Fairbanks operations in Utah, Texas, Florida and Pennsylvania by the end of this month.

S&P said its downgrade reflects "a number of process breakdowns" at Fairbanks. "[The company] has not fully managed the portfolio growth and integration of functions and platforms associated with the acquisitions that occurred during the past 36 months," S&P said. "The reasons include insufficient management oversight, and controls, inadequate technology and training, and ineffective vendor oversight resulting in an environment that poses significant risk exposure."

S&P also revealed that its review of documentation dating back 15 months indicates a "pattern of apparent Fair Debt Collection Practices Act violations." And while the rating agency acknowledged that Fairbanks promotes a "robust" loan mitigation environment, it added that the company's extensive use of temporary employees in its collection group is making it harder for borrowers in the "latter stages of the default process" to obtain workouts.

Among other issues of concern to S&P are foreclosure cure, loan work, and recidivism rates that are "outside of industry tolerance levels." S&P also found several instances in which borrowers were given inaccurate payoff quotes, many of which included erroneous inspection fees. And it suggested that the company may be in violation of the Real Estate Settlement Procedures Act because of a failure to process escrow payment refunds in a timely manner.

Moody's also cited several operational issues in its downgrade announcement. Unlike S&P, however, Moody's didn't bar Fairbanks from acting as a primary servicer on future securitization deals.

But the rating agency warned that Fairbanks' legal problems could lead to performance difficulties down the road. And while Moody's said it will allow the company to continue to participate in subprime deals, it added that it will "look favorably," from a ratings standpoint, on transactions that facilitate a servicing transfer with "minimum disruptions." ✦

FTC Official Warns Lenders To Mind Borrower Privacy

While compliance with a growing number of state and local predatory lending laws has occupied much of the talk at industry conferences in recent months, regulators have warned that lenders need to pay attention to privacy issues as well.

That message was made clear last week by Peggy Twohig, the assistant director of the Federal Trade Commission's Division of Financial Practices, who told lenders, "in mortgage lending, privacy is something we are looking closely at."

In remarks at a subprime lending conference sponsored by the Mortgage Bankers Association of America, Twohig pointed to the agency's recent case against 30 Minute Mortgage, a Florida-based operation that used sham loan applications as a way to collect sensitive consumer information, such as social security numbers and bank records, that could then be sold to lenders.