



Recovery Tips

Eliminate Risk

The best way to enhance your risk management infrastructure and keep up with competitors is to partner with an expert.

By **Tim Smith**

Improperly handling risk management efforts can make or break your loan origination process. Often, unforeseen issues arise that can be effectively dealt with, or even prevented by, the implementation of a strong risk management infrastructure.

With potential crises just waiting to be revealed, it is beneficial for lenders to identify these risks up front, before the damage becomes irreparable. Three areas on which lenders should focus in order to protect themselves and their borrowers are title search insurance, AVM audits and the use of innovative technology for property reports.

Title Search Insurance

Performing a title search consists of locating all necessary documents to determine and verify the legal owner of a property, and additional interest(s), claims and encumbrances on the property. Having insurance on these searches protects the lender by insuring that the information presented in the search is accurate and valid. If a title search is performed without proper insurance, the lender is left responsible for any issues down the road. For example, if a lender closes a home equity loan, and two years later the borrower defaults and the lender was not aware that there was a mortgage lien filed prior to the home equity that lender is subject to any losses that could occur as a result of the error on the original property report.

With title search insurance, any errors or missing data on the property report are covered, and the lender is guaranteed a lien position. This indemnifies the lender of fault and losses for any incorrect data on the initial report, should the borrower default on the loan. Lenders should always partner with providers

that not only handle nationwide title searches for them, but also provide sufficient title search insurance.

AVM Audits

Automated Valuation Models (AVMs) allow lenders to receive information regarding a residential property at the touch of a button. They show the lender the market value for the property, the tax assessor's indication of value, recent sales history and comparable sales analysis of similar properties. And, although some lenders lost confidence in AVMs as a result of the 2008 financial crisis, they are making a strong comeback.

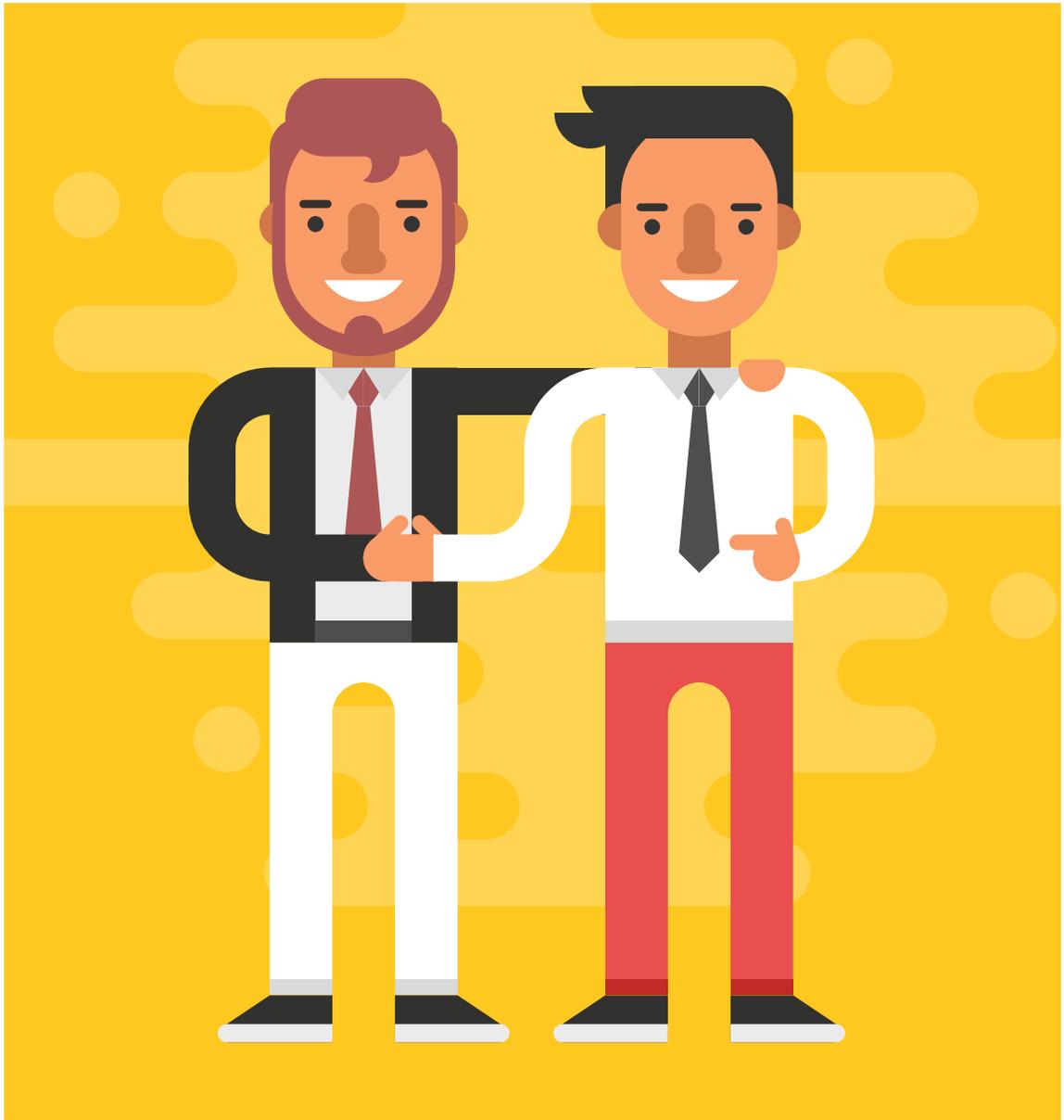
In order to keep AVMs up to date and functioning properly, lenders must perform timely audits or validation. These audits should include a thorough comparison of a sample pool with AVMs versus a benchmark, such as a standard appraisal. This allows lenders to understand the strength and accuracy of the AVM model being used and the deviations between both, enabling the lender to adjust guidelines if necessary. Auditors want to see AVM validations to ensure the AVMs are delivering accurate values on properties.

By scheduling regular audits, lenders can trust that their AVMs are presenting correct information.

Using Innovative Technology for Property Reports

Many lenders still receive property reports from third parties that manually pull information from the Internet, transpose it to a report and then deliver the package to the lender. This physical transport of data from one document to another, or the "stare and compare" approach, significantly increases the risk of human error.

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Lenders should engage with providers that use technology to create property reports directly from information provided by the courthouse or credit repositories. When no data is manually input by humans, the process becomes much faster and ensures accurate information. The lender is then delivered one concise report in a timely and compliant manner.

The best way to enhance your risk management

infrastructure and keep up with competitors is to partner with an expert, third-party provider that offers full title search services, including insurance, AVM audit services and technical property reports. This will not only set you apart from others maintaining out-of-date processes, but will also ensure that all parties are protected throughout the entire loan origination process. ❖

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