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## 'Turn the Distressed Asset Challenge into Opportunity'

BY AMILDA DYMI

STAMFORD, CT—Those prepared to face a challenge should find it a good time to buy distressed loans.

Risk and credit management veteran Barrett Burns says lenders can turn the challenge into opportunity by combining predictive and consistent credit scoring when assessing the risk and value of these loans with plain old, basic underwriting.

The president and CEO of VantageScore Solutions, Mr. Burns sees the convergence of three components in nonperforming asset investment trends.

"One is getting mortgage data at the loan level vs. the security level. Up until now it really has not been available. For example, in new issuance, the American Securitization Forum has an initiative that requires more data at the loan level and that has opened the door to thinking of securing that loan level data for issues already trading."

As the industry recognizes it needs more loan level data to make accurate business investment decisions, the second component, Mr. Burns says, is getting a more predictive credit score that will help rescore nonperforming loans and distressed asset portfolios.

The third recognition is that predicting imminent default is the best pre-emptive way to mitigate loan losses.

"In other words, if a person is current in their mortgage but they're lagging behind in their other asset payments, such as credit cards or auto loans: How do you predict if and when they are going to default on their mortgage, which is usually called imminent default?"

To mitigate imminent default lenders need prognostic credit scores that take in consideration all the asset classes when predicting default. This type of processing has become indispensable in achieving the so-called transparent



**BARRETT BURNS**, President and CEO of VantageScore Solutions, stresses the need for strong underwriting.

data reporting and processing.

"A more particular credit score is very important to investor analysis of distressed assets," he says.

"However, a good score tool won't make up for poor underwriting practices, so now the market is going back to more rational underwriting practices and loan-to-values, and, I would say, going back to basics. The new tools also are more predictive and helping to bring back rationality to the marketplace."

Risk managers are now re-evaluating their analytical models to ensure they are using highly predictive credit rating models that can be adopted to users' specific needs.

The distressed asset market offers new business opportunity to those who manage to combine effectively the use of existing tools and underwriting expertise. "It has happened before back when RTC was in existence that was very beneficial to resolve poorly performing assets in lenders' balance sheets. There's a good track record of that happening. But this time around the investor really needs to spend a great

amount of time and analytical work."

Providers of models that predict the likelihood of delinquency like VantageScore, accepted by two of the country's major credit rating agencies, are continuously testing highly analytical solutions. The goal, Mr. Burns told *NMN*, is to be ready when the new issuance securitization market comes back.

The company is now focusing on validating its existing model, which was initially introduced to the marketplace in 2006. "The core of the model reflects today's market environment because the volatility really started between 2001 and 2002. And by that I mean it was when customer debt, subprime, alt-A and exotic products ramped up very dramatically." The model was developed responding to lender demands "to have a tool that would pick up on that volatility, the timing was not accidental," he said.

A retrogressive Experian study tested VantageScore by reviewing several securitizations after they were downgraded. VantageScore results showed that their downgrades could have been predicted two years before these securitizations were actually downgraded if today's tools were available. Currently other service providers offer similar tools. What is unique about VantageScore is that it offers less volatile credit scores that incorporate data from the country's major credit reporting agencies, which is important especially when the securitization market needs to evaluate problem assets. A common model is attractive to lenders, he explained, because it interprets inconsistent data consistently, since the three credit agencies use different data definitions. Investors of troubled or even not-troubled assets need inclusive and consistent data reporting and analytics to make informative business decisions.