

Ehring: Technology Adds Transparency for RMBS Investors

In an interview with *MBA NewsLink*, Dain Ehring, CEO of Dorado Corp., San Mateo, Calif., spoke about next year's mortgage technology market, including technology investments, loan modifications, cloud computing, transparency in residential mortgage-backed securities and industry consolidation.

NEWSLINK: *What will the industry see in major mortgage technology investments next year?*

DAIN EHRING: In terms of 2010, the big technology investments will continue to be around loan modifications, reworking the loans and refinancing loans. It will be on major regulatory initiatives and compliance initiatives.

NEWSLINK: *So from a technology standpoint, next year is going to continue to be more about servicing?*

EHRING: It's going to be more about wrapping around the servicing and the applications and performance modeling around that servicing portfolio to mitigate risk and meet new regulations. We see the division blurring between the servicing arm and the origination arm. We see the demarcation blurring a little bit, especially with all the loan modifications but, instead of modifying the loans, banks are also looking at refinancing the loan. That puts it right back into the origination channel and we are seeing that a lot among top-tier banks. Another big investment is going to be around—I'm going to call it data validation to do fraud detection and loan performance. When I say 'data validation,' it is going from data to the origination channel but then verifying that information through other sources on the Internet. Some examples may be employment verification, matching the address and making sure clean information is coming in but doing checks against that information to protect the bank and the consumer.

NEWSLINK: *How do you plan to deal with any new regulations from a technology standpoint?*

EHRING: Obviously, originators are going to have much more 'skin in the game' than they had in the past and that itself is going to put new requirements on the origination side—how clean the loan is, loan quality—and that coupled with the new regulatory environment is a whole new game. There is going to be a lot of technology refresh in the market. That is the biggest thing.

NEWSLINK: *We have discussed cloud computing in the past to save costs for financial institutions. Does that increase in popularity next year?*

EHRING: If you think of critical momentum as 15 percent to 20 percent of the market, I would say cloud computing is going to pass that. I think in 2010, cloud computing is going to represent 20 percent or maybe 30 percent of all transactions in the market. From a technology point-of-view, it is the transaction processing, automation and orchestration. That is the key there. But it is also the network services around it. It is not just getting access to technology over the Internet in an on-demand basis, but it is all the network service providers that go into the technology and accessing it over the cloud. It is the technology platform as well as the web services.

NEWSLINK: *Do you believe securitization returns in 2010?*

EHRING: I think it will begin to come back.

NEWSLINK: *Will the Term Asset-Backed Securities Loan Facility or some other vehicle be necessary as an incentive to bring residential mortgage-backed securities investors back into the market?*

EHRING: It is investors themselves that are going to look for ways to get comfortable with the loans, go through the loans and find value in that asset. The investors will find ways to make money on the asset. The investors themselves will do that. It is just a matter of having the right information and data and [banks] are collecting that data now. Whether the government has to do [TALF] or not to spark it, obviously that would help, but I am not going to predict that. I will predict that investors will find a way to make money.

NEWSLINK: *Some industry experts in residential and commercial finance say that for securitization to return, investors will need to see the assets they are purchasing. Do you believe that is true?* **EHRING:** Yes, absolutely, 100 percent—that is fundamental.

NEWSLINK: *Then how close is mortgage technology to making that a reality?*

EHRING: We are very close to making it a reality just by digitization of the loan process itself. Then, it is a matter of refreshing the existing technology to take advantage of that. Lenders have to go through their business continuity and refresh the existing platforms they have but, from a technology point of view, I think it is there. Dorado already provides audit trails for all of our loans. We already provide that to our customers. It is just a matter of digitizing that information and making it accessible. That is where the transparency comes in making [the data] accessible. I am not going to say Dorado has a lock on that because some of the core technologies are out there on the market. The lenders need to look at their existing systems and look to refresh their existing processes. Maybe it is self-fulfilling because those are the lenders I am talking to—I really see lenders looking to re-platform. Most lenders have not made investments just because the volume has been so high. They have not been able to do it because of the business continuity. Now, there is a lot of pressure to make that investment. If it is delivered over the cloud [cloud computing], the investment does not have to be that great. It is just changing the existing platform to a new platform. It is more business continuity.

NEWSLINK: *So investors who purchase residential mortgage-backed securities--a pool of loans--would be able to have a clearer idea of the assets they are purchasing?*

EHRING: That is right—provided by the originator. We would have to have the right relationship with the originator that sells [the loans].

NEWSLINK: *And that is the way you view the future of securitization?* **EHRING:** Absolutely.

NEWSLINK: *So the investor gets a better idea of the asset rather than just a rating from a rating agency? Investors would actually be able to see the exact properties they are purchasing?*

EHRING: Absolutely. And everyone I know who has a view into that will agree with me. Everybody would agree that is happening.

NEWSLINK: *Isn't it a little overoptimistic, though, to think that sort of procedure can take place within the next year?*

EHRING: It will begin to happen over the next year. I don't believe it will be pervasive or the only way, but if people start making money, it will start to accelerate.

NEWSLINK: *Do you forecast any consolidation next year within the mortgage technology arena?*

EHRING: In mortgage technology, I will predict yes. Yes, there will be more.

NEWSLINK: *In what aspects? Loan origination systems?*

EHRING: Loan origination and decisioning. Yes.

NEWSLINK: *How about on the servicing side?*

EHRING: It is pretty much consolidated. It can't get more consolidated than it already is. If you are including default management, maybe there is some consolidation there.