

addition, JPMorgan will handle the recordkeeping for Freddie's \$61.1 billion (as of Dec. 2005) liquidity and contingency portfolio of short-term assets.

JPMorgan Worldwide Securities Services, a division of JPMorgan Chase Bank, N.A., manages \$11.7 trillion in assets worldwide.

Trimming Freddie Fat

"Freddie Mac is committed to achieving a higher level of organizational strength and focus across all of our operations," Freddie Senior Vice President Joseph Rossi said in a statement. By working with JPMorgan, "we are simplifying our operating environment, saving time and money and more efficiently managing our investment assets," he added. "JPMorgan's state-of-the-art systems, scalable infrastructure and technology management experience with governments and central banks make them a terrific choice."

Connecting its advanced trading platform and bridging its accounting system with JPMorgan's technology, Freddie Mac will be able to reconcile transactions and close its books more quickly.

One JPMorgan official said the new deal would also help Freddie comply with the revised payments system policy instituted by the Federal Reserve Board, which took effect July 20.

Freddie is in the midst of overhauling its financial systems in the wake of accounting scandals that have rocked the firm in recent years. Executives blamed part of the problem in reporting its financial results on the lack of adequate technology.

"We have been doing much more in the way of outsourcing and looking for third-party technology solutions," Freddie spokesman Brad German said. "That's a conscious effort to change Freddie Mac from a build model to a buy-and-integrate model. That enables us to do things more quickly and more cost-effectively, because we're not building it from scratch."

Rival GSE Fannie Mae declined to acknowledge whether it outsources any portfolio-related functions. But it is likely Freddie's new outsourcing arrangement is unique among MBS investors, according to the Wall Street analyst. However, the deal with JPMorgan seems similar to some correspondent clearing activities involving hedge funds and investment banks. "The core competency of the hedge funds is not that they know how to move the papers around and keep them filed and logged; it's the actual investment strategy," he said. ☐

Private Label Vendor Claims Industry's Most Accurate AU

Pricemyloan.com, developed by Insight Lending Solutions, does not flinch when claiming it is the "most accurate automated underwriting and loan pricing engine" in the industry. The system took four years to develop and was released in the fall of 2004, reports Binh Dang, managing director.

Targeted toward mid-size lenders, the private label Web-based AU returns a comprehensive list of loan programs a borrower qualifies for. Loan officers can drill down into each program to see what the stipulations are, including pricing, rates and adjustments, and immediately submit an application to the lender without having to leave a loan program screen.

The system incorporates more than 200 credit vendors and generates loan eligibility and real-time pricing in under 20 seconds.

It's the Rules

Since Insight offers the AU as software-as-a-service, to brokers and correspondents, system activation only takes a few days, with the average standing at three.

The unique element of the AU lies with its comprehensive rules engine. Often AUs will come with a set of rules that each lender/broker must customize. That effort "can take anywhere from six to 18 months, depending on how many loan products they are trying to build – and that's a very expensive and time consuming process," Dang told us.

Pricemyloan's rules are so extensive that they will meet most, if not all the needs of a broker upon activation. "What we realized up front is that the correspondent lender market is mostly reselling their investors' products to the broker market, so they are the middleman," Dang said.

The market holds about 100 investors, so Insight took the time and effort upfront to build an AU engine for most all investor products and reuse the rules for different lenders.

"It is bringing economy of scale to the market," Dang noted. Should a correspondent lender need products added to the AU, Insight can do so quickly and easily. Otherwise, Pricemyloan keeps up with investors' rule changes and constantly updates the AU with new rates.

On the Mark

The system's flexibility was an original concept since the Costa Mesa, CA, firm adopted Microsoft's

.NET, which is a system that connects users, devices and stand-alone technologies via software. It is quickly becoming the darling architecture of mortgage lenders and vendors because of its ease of use and scalability.

“Through experience, we found out that there’s only one thing that’s critical to any underwriting engine and trumps all other considerations. It’s accuracy,” Dang said.

His point is that if an AU is wrong on either the good or bad side, the lender still gets hurt. Should an AU inappropriately approve a loan, then the lender has to sell it at a loss to a different investor, because he cannot sell it to the original investor. If AU prices the product too low, then the lender takes a loss that could amount to thousands of dollars, Dang said.

Pricemyloan maintains its high accuracy rate by being fanatical about updating the system with new prices and corrections in a timely manner, automating as much as possible and responding to lender enquiries quickly, often times within a couple of hours. The firm also hires the “top 1-2 percent” of the industry’s best tech people to keep the system operating at peak efficiency.

“When you have a product test, you have a lot of people testing out all the different cases. So if there’s any issue, one company might miss it, but another will catch it, so all the companies will benefit from that issue being corrected,” Dang said.

Test and Test Again

To help make the system even more robust, Insight is starting a preferred investor program. This invites investors to test products on the Pricemyloan system free of charge.

By testing the AU for such issues as whether it is checking mortgage history correctly or interpreting rate sheet rules as intended, investors can verify the accuracy of its product offerings.

So far, smaller investors have expressed a lot of interest in using Pricemyloan’s testing offer, while larger ones are still waiting for the company to mature and add more correspondent customers.

These efforts to ensure accuracy allow many users to immediately honor most quotes they receive from the AU, Dang noted.

Spreading the Word

The firm plans to use mass mailings and trade shows to add new customers. What Dang hopes to avoid is going through a reseller. “This is a very complicated product and it needs to have very tight

leadership to ensure the product is accurate and that customers are using it properly,” Dang said.

Also, the company says it is only promising what it can actually deliver, but resellers exaggerate what the AU can do. Dang is passionate about presenting Pricemyloan accurately and avoiding a reputation as a company that makes promises it does not keep.

In a recent development, Insight has partnered with ProLender Solutions to integrate backend services for loans after closing.

Combining the Pricemyloans AU and pricing engine with ProLender’s loan processing and post-closing process gives lenders a seamless loan cycle, the companies said. ☐

REO Specialist Finds Tech is Pivotal in Managing Portfolio

It may not be new razzle-dazzle technology, but being able to exchange files electronically is very important to Anna Stark. She is the REO specialist for First Magnus Financial Corp.

“We only work with those [REO vendors] that are Web-based,” Stark told us. “I can go onto their Web site and assign a property [to sell] whether it be with our listing company or with Williams & Williams Auctioneers.”

First Magnus is one of a growing number of lenders today that are using REO auctions to dispose of homes returned by mortgage servicers after a foreclosure. But a key element for First Magnus to work with auctioneers, or any REO vendor, including appraisers and title companies, is the ability to communicate with them online and by e-mail.

Once the lender assigns property to its auctioneers or multiple listing agents, Stark wants to be able to monitor the activity associated with the home, which includes keeping an electronic eye on how well the property is being preserved.

The ability to read agent comments online is vital to the way Stark manages her REO portfolio.

“There are a couple of BPO companies we won’t work with because they don’t have the computer-based technology that allow me to manage those accounts,” she said.

Having a streamlined electronic ability to manage REO accounts is becoming even more important to Stark as she anticipates an increase in foreclosed homes that will be added to the lender’s REO portfolio, which now averages about 50