1st NATIONAL BANK OF ARIZONA
Home of Alt-A Mortgage Lending℠

Introducing Three More Ways FNBA Makes it EZ to Close More Loans

AZ Express Features:
- 100% AZ Express SIVA – One Loan Only
- Up to 95% AZ Express SISA
- Cash-out to 90%
- Available With and Without signed 4506
- Interest-only Option Available
- No Doc Option Available
- Aggressive Conforming Pricing
- Online LP/DU Approvals Through Avenue Xpress℠
- Limited Appraisal Requirements**

100% Financing with LPMI:
- Full Doc to 620
- Stated & No Ratio to 660
- Only Two Months Reserves Required
- Purchase Rate & Term
- No Payment Shock Requirement Over 660 FICO
- Ok for Self-Employed or W2
- Private Party or VOR Allowed

5-Year Hybrid Cash Management ARM:
- Fixed Minimum Payment for First 5 Years*
- Additional Payment Options (Interest-only, 30-year & 15-year) based on Fixed Rate for First 5 Years
- Loan Recast After 10th Year or at Maximum Deferred Interest
- Interest-only Option Available Through Year 10
- Full Doc & Stated Down to 620
- Stated/Stated Doc Type Available

To locate an account executive in your city, visit www.fnbavenue.com.

AVENUE XPRESS™

XPRESS RATE™

*Fixed minimum payment available until loan recast.

Paying only the minimum payment will not be sufficient to cover the interest due. The difference will be added to the principal balance. If the outstanding balance reaches the negative amortization limit, the monthly minimum payment will immediately increase even if the loan still is within its first five years. The monthly payment can increase substantially on the 61st payment due date and subsequent scheduled Payment Change Dates or when the unpaid principal balance reaches the negative amortization limit. Please refer your clients to the ARM Loan Program Disclosure for additional details.

**Not all loans may qualify for streamlined appraisal product.

This is not a commitment to lend. All loans are subject to credit and property approval. For professional use only and should not be provided to the consumer. Rates, terms, fees and programs are subject to change without notice.

EQUAL HOUSING LENDER

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INSURANCE

Should You Reduce Costs By Lowering Your Coverage?

Despite a market slowdown, reducing your insurance coverage could be quite costly.

By Lee Brodsky

After several good years, we're seeing a slowdown in the mortgage origination market, which translates directly into less origination and revenue. So what do you do? First, don't panic. When business slows, the natural tendency is to cut costs - a sensible idea. But before you go slashing expenses, it's important to make sure you're cutting the right ones and doing so in a way that doesn't endanger your company's future.

BRODSKY

Many mortgage bankers are taking a close look at their insurance expenses, such as fidelity bonds, mortgagees' errors and omissions (E&O), professional liability and other coverages. And based upon lower origination or servicing volumes, they're contemplating lowering their coverage limits in order to lower their premiums. On paper, this might sound good. But it has the potential to be incredibly costly for your mortgage banking firm.

To understand why, let's take a quick look at the risks of lowering your limit and the market's effect on claims, and then we'll examine some more effective alternatives that will help you soften the blow of the current slowdown.

Use caution

With originations down, it might seem safe to lower your policy limit. After all, with fewer loans, a cursory look at your insurance risk management needs might suggest you'll be all right with less coverage. But you need to watch out for your policy's finer points.

Fidelity is a discovery policy. Professional liability and E&O are claims-made policies. So, if you lower your limit and a claim occurs from a time when your loan origination was much higher, that claim is subject to your current policy limit, not the higher, earlier limit.

For instance, let's say you have a $2 million limit that you reduce to $1 million. Then you suffer a loss that results in a $2 million claim. You're now forced to pay $1 million out of pocket. If you thought the cost of the higher premium was unfavorable, just imagine the financial repercussions of paying this substantial out-of-pocket expense.

Also, take into consideration that in the recent past (2003-2005), origination volume was greater. Therefore, if you only look at your current origination volume and not volumes of the past, you could be leaving yourself open to a major, underinsured loss.

To complicate matters further, if you raise your limit and a claim occurs from a loan originated in the past, the old, lesser limit will apply. Insurance carriers set a retroactive date in the policy for the increased amount of coverage. Any claims deriving from loans originated after that date are put toward the new limit, and anything from the past is based on the prior policy limit that was in effect.

For over 30 years, Lee Brodsky has specialized in operational insurance for the mortgage banking and financial services industry. In 2004, he established Mortgage Banking Insurance Group at JMB Insurance. An independent brokerage, his group helps mortgage bankers and brokers procure operational insurance that meets their goals and satisfies investor requirements. For more information, go to www.mortgagebankinginsurance.com. He can be reached at lbrodsky@jmbins.com or (312) 915-2226.

The reason for this policy is that insurance companies feel they shouldn't be responsible for a limit for which they weren't collecting the premiums at the time the act occurred. If your limits have been growing at the same pace as your company, this shouldn't greatly affect your firm, as any claims from past loans should be sufficiently covered under your past policy.

However, this could hurt your company if you've lowered your limit and then raised it back when business improved. Basically, lowering your limit coupled with the retroactive date that a carrier adds when you subsequently raise your limit means that claims stemming from past loans will always be put toward the lower limit. The gap in insurance continuity results in you forfeiting the higher limit in an attempt to reduce your insurance expense.

Claims trending up

Another reason that lowering your limit can be dangerous is that during a slowdown the number of claims discovered tends to increase. Often, this is because there is a delay of 18 to 24 months in discovering claims after a strong mortgage market. So, you could be exposing yourself to an unnecessary risk by lowering your limit when people are facing more claims and, thus, more losses.

Two other factors for this trend are an increase in delinquencies, which results in loan defaults, and a rise in employee fraud by employees trying to maintain the lifestyle of the bullish mortgage origination years.

When a loan defaults, the investor, not wanting to take the brunt of the loss, will look closely to ascertain if there were any fraudulent or negligent activities that resulted in a loan being approved to an unqualified applicant. With the number of foreclosures increasing, there is more opportunity for these past issues to surface, resulting in more claims than during the better economic times.

The other reason claims increase during a market downturn is the rise in instances of employee dishonesty. With origination volume and commissions down, loan producers are feeling the economic crunch. Coming off a recent prosperous period, they have become used to a lifestyle that they're now reluctant to give up.

In order to keep volume up, some may resort to Creative Loan Origination 101 and commit such dishonest acts as influencing appraisers or advising customers to "enhance" their income. That's why it's important to remember that though your insurance coverage may help you minimize your out-of-pocket expenses, it can't replace your company's internal controls.

There are several actions you can take that are less risky than lowering your limit.

There are several proactive actions you can take that are less risky than lowering your limit. The first of these is to seek out and work with a knowledgeable insurance broker with experience working within the mortgage banking arena. Since every firm is unique, this specialist will be able to determine the risks your company faces and provide recommendations for covering those risks. In order to keep your options open, your specialist should start talking to your carrier several months in advance of your renewal to find out if the carrier is anticipating a substantial rate change.

This brings up the question, "Are rates going up?" Most insurance premiums in recent renewals were staying flat. This will hopefully remain true for those renewing later this year and into the next. However, though general insurance rates have been static, some companies did experience a change in their premium.

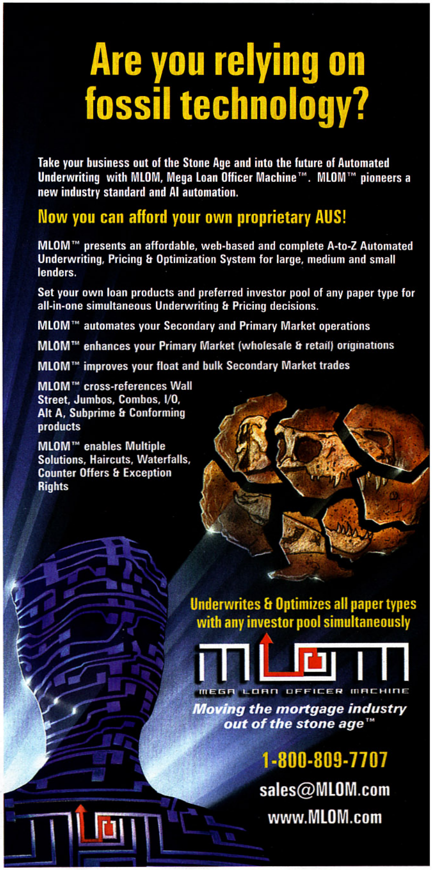
These changes resulted from the market's effect on the individual company's overall performance. Understandably, premiums decreased for companies that had less staff and fewer branches than at the time of their last renewal and went up for those who had more.

Some whose fortunes were down actually saw an increase in their premium. This occurred because their company's capital position had weakened so much that the insurer now viewed the firm as an increased financial risk. Because they qualified for insurance at a higher rate, their premium increased. This led to the frustrating predicament that at a time when they wanted to spend less, they were actually forced to spend more. It's a situation you and your insurance broker should look out for.

To keep your premiums reasonable, you may need to work with a new insurance carrier. A specialist can facilitate this move. By checking with your carrier several months in advance, you can get an idea of what will happen with your renewal premium. In turn, this gives your insurance broker enough time to investigate your alternatives. If you wait, chances are you won't have any choice but to renew with the same carrier - no matter what the renewal premium.

Another step is to consider higher deductible options. This will also have the effect of lowering your premiums but without as much risk as lowering your limit.

Looking back at our past example, let's say that instead of lowering your limit by \$1 million, you had raised your deductible by \$25,000. Then, on that \$2 million claim, you'd be paying out only \$25,000 (the deductible) compared to \$1 million more (the amount over your reduced limit). This revised example illustrates how raising your deductible could result in a much more manageable out-of-pocket expense. Of course, you'll need to compare the premium savings generated by



taking on the higher deductible versus lowering your limit.

Getting effective coverage

Of course, let's not lose sight of the insurance for the expense. The goal here is effective coverage at a good value. There may be opportunities to lower premiums, but don't choose those that will endanger the financial security of your firm. Select coverage, limits and deductibles that will effectively satisfy investor and warehouse lender requirements while meeting your own insurance risk management objectives.

The real lesson here is that whether the market's good or bad, you need to be careful about lowering your policy's limit, because a miscalculation of your risk could result in a huge loss not being fully covered by your policy. No one likes thinking about or paying for insurance, but they're sure happy it's there when they have a claim.

Make sure you're working with someone who understands how to accurately evaluate your company from a risk management perspective, because the last thing you want is to be hit with a major uncovered or underinsured loss. When all is said and done, it's more important to have good coverage and pay a little more than to buy coverage that doesn't properly protect you. SME

CONTACTS

NATIONAL CITY

Pittsburgh-based National City Mortgage has appointed **Eric J. Kepner** to the newly created position of national product specialist for the correspondent lending division. Previously, he was the division's senior account executive for New York and New England. He will be responsible for niche products, including one-time close construction, renovation, national seconds, expanded criteria and nonprime. **(888) 622-4932**.

C-BASS

C-BASS has promoted **John M. Draghi** to chief operating officer, and **Marc Rosenthal** and **Noelle Savarese** to co-heads of capital markets. Draghi has been chief investment officer since July of 1996, and was previously responsible for all investment activities as head of capital markets. Rosenthal, who was also named chief investment officer, has served as a managing director in the capital markets area since 2004. He has been responsible for investment activities in residential mortgage loans and securities for the company since 2000. Savarese has been a managing director in the capital markets area since 2000, and has had overall responsibility for finance activities in that area. C-BASS is a New York-based company specializing in the acquisition, servicing and securitization of credit-sensitive residential mortgages. **(212) 850-7724**.

CREDIT PLUS

Credit Plus has hired **Greg Holmes** as Southeast regional sales manager. He was formerly vice president of direct sales in the eastern U.S. for Land-America and has more than 13 years of industry experience. Headquartered in Salisbury, Md., Credit Plus provides settlement services. **(800) 258-3488**.

HOLMES

MGIC

Mortgage Guaranty Insurance Corp. (MGIC), the primary subsidiary of MGIC Investment Corp., has named **Charles White** its capital markets manager. He will help originators and investors improve their efficiency through wholesale matchmaking, bulk mortgage insurance and alternative markets services. White has 28 years of professional financial market experience and comes to MGIC from Continuity Programs Inc., where he was a regional manager in charge of customer retention programs. He is based in Dallas. **(414) 347-2650**. Also, MGIC has named **Lloyd San** capital markets manager. He will offer originators and investors wholesale matchmaking, bulk mortgage insurance and other services. San has 22 years of industry experience and previously worked at AIG as director of capital and sales. He will be based in Los Angeles. **(800) 424-6442**.

ELYNX

eLynx Ltd. has appointed **Alan Matuszak** vice president of software engineering. He will oversee the software development team. Matuszak has more than 15 years of IT experience, including senior positions for international and Fortune 1000 companies, such as Compaq and Tenneco. He also worked at Landata Systems, where he managed the development of a commercial software package. Based in Cincinnati, eLynx proves electronic document delivery services. **(800) 466-5969**.

POTOMAC HOME FUNDING

Potomac Home Funding LLC has named **Walter Clarke** vice president and regional manager of mortgage lending. He will work from a bank branch in Chantilly, Va. Clarke has over 17 years' experience in finance and real estate. He has served on the management team for a National Relocation Co. and was formerly a financial advisor and registered representative with First Union Bank. **(703) 819-6442**.

LSSI

Lender Support Systems Inc. (LSSI), a Poway, Calif.-based technology solutions provider, has named **Brian Daniells** chief operating officer and chief financial officer. He brings 15 years of industry experience and will manage the company's day-to-day operations. Previously, he was CFO for Equity 1 Lenders Group. He was also CFO for Enterprising Solutions and director of finance for Advanta Corp. **(858) 268-7100**.