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Asset-Backed ALERT
THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

Errors Jump in Mortgage Docs

The number of errors in mortgage applications rose sharply at the beginning of this year.

For comparative purposes, a monthly index maintained by **First American Financial** assigns a benchmark level of 100 to the frequency of errors encountered in January 2011. The index was at 87 in December 2018, then rose to 91 in January before appearing to stabilize at 95 in February and March.

The index had peaked at 102 in October 2013 before falling to a low of 68 in July 2016. It then bounced around before entering a more-gradual rise from 76 in July 2018.

First American attributed the second-half increase to a rise in mortgage rates, as refinancings shrank in proportion to new home purchases — which entail more complex loan-application processes that introduce more opportunities for errors. What has been confounding economists at the firm is why the pattern accelerated even after rates began falling in November.

Companies including **Altisource** and **LoanLogics** have tracked similar patterns. Sources at the operations broadly point to increased originations of loans that don't meet the **Consumer Financial Protection Bureau's** "qualified-mortgage" guidelines. "There are a number of new products coming to the market and . . . pressure to maintain and grow volume with new products," Altisource senior vice president **Justin Vedder** said. "You won't find many lenders adding risk or quality-control employees to their staffs."

As lenders compete for borrowers and seek higher yields, LoanLogics chief credit officer **Elliot Salzman** said, some have loosened their underwriting standards.

First American chief economist **Mark Fleming** also sees fluctuations in home prices and supply as affecting application errors. "In markets where there are bidding wars, the flags go off," he said. "People are in a hurry to get the bid in where inventory is tight, and that accelerates and puts pressure on the whole process."

The errors include both simple typographical mistakes and more significant inconsistencies, including fraudulent statements of income and home values. Altisource, First American and competitors including **CastleLine, LoanScorecard** and **Promontory Fulfillment** review loans before they are designated for securitization, separately from firms that handle due-diligence reviews during the bond-issuing process.

It's unclear if the originators are correcting the errors. In instances where a loan is found to be in violation of representations and warranties after securitization, the issuer typically is required to buy back the account. ❖

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MAY 3, 2019

2 Pass-Throughs Keep Gaining Favor
2 Errors Jump in Mortgage Docs
3 Ex-Impac President Back in Business
3 Student-Loan Paper Poised to Recover
3 CLO Combo Notes Regain Traction
5 Data-Center Deals In Development
5 Renovate America Branches Out
5 Bottom-Rung Borrowers Post Gains
6 County Shuts Out Tax-Lien Buyer
10 INITIAL PRICINGS
11 MARKET MONITOR

Blackstone Adds Pros for Broad MBS Push

Blackstone-backed mortgage lender **Finance of America** has hired two structured-finance specialists to help expand its bond-issuing activities.

The April arrivals of **Patrick Kim** from **FirstKey Mortgage** and **Khalil Kanaan** from **One William Street Capital** signal plans by Finance of America to offer a range of securities, possibly including deals backed by loans that don't meet the **Consumer Financial Protection Bureau's** "qualified-mortgage" standards.

Offerings underpinned by Finance of America's home-equity loans, home-equity lines of credit and fix-and-flip accounts also could be in the mix. Sources said the transactions could begin flowing on a routine basis in 2020.

Finance of America has only securitized reverse mortgages so far, having completed seven such deals totaling $2.1 billion since entering the market in 2017, according to **Asset-Backed Alert's** ABS Database. Kim's job as a director in the Horsham, Pa., company's structured-finance division has him working with the team

See BLACKSTONE on Page 8

CLO Investor Whitebox Assumes Issuer Role

Whitebox Advisors, a hedge fund shop that routinely invests in collateralized loan obligations, has formed a unit to issue its own CLOs.

The division, Whitebox CLO Management, has begun buying leveraged loans via a warehouse line from **J.P. Morgan.** It also has started reaching out to CLO investors, though the timing of an inaugural deal is uncertain.

Whitebox has long invested in CLOs via its flagship Whitebox Multi-Strategy Partners Fund and, more recently, through Term Credit Fund 1, which the firm launched in 2017 with a focus on structured products. Whitebox's structured credit product strategy has generated a 16.4% annualized return since 2010.

Its funds also invest in whole loans, having traded about $6 billion of leveraged loans since 2014, according to marketing materials for Whitebox CLO Management. Whitebox is telling investors it will retain the equity pieces of the CLOs it issues.

Industry professionals have been expecting new issuers to enter the market

See WHITEBOX on Page 6

Negative-Am Mortgage Bonds Resurfacing

Wells Fargo is auctioning off pre-credit-crisis mortgages in which the borrowers were able to defer early payments by adding to their principal balances — accounts that could land in securitization pools.

The bank started the effort by selling a few hundred million dollars of the so-called negative-amortization loans last year. Satisfied with the results of that offering, it sold $2 billion of the accounts this week as part of an auction that also encompassed $450 million each of nonperforming and reperforming mortgages.

While there's no word yet on a specific bond deal, sources said the buyer of the negative-am loans, **Credit Suisse,** could pass on the accounts to **Pimco** — which apparently has shown an interest in using such receivables as securitization collateral. **CarVal Investors, Ellington Management** and **FirstKey Mortgage** also are considering similar offerings. Indications are those shops would bundle the receivables

See BONDS on Page 7

THE GRAPEVINE

Paul Vambutas is leaving his New York post as head of specialty finance at **Global Atlantic Financial,** a role in which he was responsible for the insurer's investments in asset-backed bonds and whole loans. Vambutas had arrived at Global Atlantic in 2016 from **Apollo Global.** Earlier, he spent time at **UBS, Deutsche Bank** and **Credit Suisse.**

Richard Rizzo has landed in the New York arm of London hedge fund manager **CQS,** with oversight of investments in collateralized loan obligations. Rizzo worked until about a month ago as the head CLO trader at **BMO Capital.** He was at predecessor **KGS-Alpha Capital** before that, having arrived from **Deutsche Bank** in 2015. He also has spent time at **Merrill Lynch.**

Tom Kirby no longer is employed as a senior portfolio manager helping to oversee the collateralized loan obligation

See GRAPEVINE on Back Page