



# REAL ESTATE TECHNOLOGY NEWS

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## Tech Report

### Lender dodges valuation woes with new risk strategy

*Secondary market loan purchaser Luminent Mortgage Capital has migrated its due diligence strategy to require some sort of valuation review on 100 percent of the loans it buys. Read on to learn more about the AVM and collateral risk platform it's using, as well as how it's working with outside consultants to create its cascade.*

Luminent Mortgage Capital — a REIT based in Philadelphia — is using new collateral valuation technology to manage and validate valuations for the collateral underlying the whole loans it buys in the secondary market. It's using Veros Real Estate Solutions' VeroVALUE AVM and VeroSELECT 2.0 collateral valuation and risk management platform. The latter was updated in October to transition from an AVM cascade tool into a full collateral risk management platform.

AVMetrics, which provides independent AVM testing, has been retained to consult for Luminent and will serve as a third-party administrator for the VeroSELECT platform. Luminent plans to use the platform for automated valuation due diligence on all loans it buys for securitization.

"We've been buying whole loans since the third quarter of 2005," said **Ellie Cornfeld Melton**, senior vice president and chief credit officer for Luminent.

Since the company maintains the first loss position in its capital markets transactions, validating the value for each property is a high priority.

"What we saw with those early trades was a trend toward issues with respect to valuation of the property," Cornfeld Melton said. "So we've migrated our due diligence strategy to require some sort of valuation review on 100 percent of the loans we buy." Cornfeld Melton said the REIT had hoped to avoid any possible vendor bias by developing its own preference table for the use of AVMs. However, it lacked the internal resources to create the cascade internally. It eventually began working with AVMetrics, which maintains a large database demonstrating how different AVMs perform in different geographic markets, price tiers and property types.

"We've turned that into an AVM cascade specific to Luminent's risk concerns and those are the tables we are going to administer for Luminent on the Veros platform," said **Lee Kennedy**, founder and Managing Director of AVMetrics. According to Kennedy, former vice president and alternative valuation products manager at Washington Mutual and who currently trains federal regulators on how to examine financial institutions and their approach to collateral valuation, "the regulatory agencies are very concerned with the risk of value shopping. The cascading systems not only have to be transparent but they also must have good underlying reasoning and empirical proof for how they are set up. So, back testing is vitally important and one of the many things we like about VeroSELECT is that the audit reporting is structured such that you can build reports on the fly and find out if the expectation of performance from the testing environment is being met in a production environment."

VeroSELECT lets lenders set up collateral valuation rule sets and build cascades for AVMs based on criteria including LTV, credit, product type, geographic area (county, city, ZIP code, etc.), confidence scores, fraud or risk scores and/or any number of user-defined variables, such as internal risk or collateral scores. Different rule sets can be built and simultaneously applied to different business channels or product types. Version 2.0 provides more control of risk strategies with secure management of vendors, users and their own proprietary business processes.



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