

Effective Risk Management in Today's Economy

Association of Government Accountants
May 2010



Amerquest Mortgage

- 1979 Founded as Long Beach S&L Bank.
- 1994 Converted to pure mortgage lender, renamed Long Beach Mortgage Company.
- 1997 Independent broker loan funding operations spun off as publicly traded company—Long Beach Mortgage.
- 1997 Retail operations renamed Amerquest Capital and remained private.



Amerquest Mortgage (continued)

- 1999 Washington Mutual purchased Long Beach Mortgage.
- 1999 Amerquest Mortgage remained a private company held by ACC Capital Holdings, owned by Roland Arnall.
- 2007 Citigroup purchased ACC Capital Holdings' wholesale lending unit (Argent Mortgage) and its loan servicing unit (AMC Mortgage Services) and shut down Amerquest Mortgage, its retail-lending unit.



Ameriquet Mortgage (continued)

- Among the first mortgage companies to use computers to search for prospective borrowers and speed up the loan process.
- Originated the “stated income loan”, which allowed borrowers to declare income without any verification process.
- In 2004, as a subprime lender, made an estimated \$50+ Billion in new loans.



Ameriquet Mortgage (continued)

- 1996 Agreed to pay \$3 Million into an “educational fund” to settle DOJ lawsuit alleging gouging and predatory lending practices against older, female, and minority borrowers within State of California.
 - Accused of charging vulnerable customers an additional fee up to 12% of the loan amount.
- Changed name and began aggressive nationwide refinance/mortgage campaign.



Ameriquet Mortgage (continued)

- 2001 Following FTC investigation settled dispute with ACORN, promising to offer \$360 Million in low-cost loans.
- 2005 Los Angeles Times article reported Ameriquet had deceived borrowers about their loan, forged documents, falsified appraisals, and fabricated borrowers’ incomes to qualify them for mortgages they could not afford.



Ameriquest Mortgage (continued)

- 2005 Agreed to pay \$325 Million to settle AG investigations in 30 states based on allegations that it had preyed on borrowers with hidden fees and balloon payments— after having settled multimillion dollar suits in five participating states.



Ameriquest Conclusion

- Former employees reported that they were pushed to falsify documents on bad mortgages and sell them to Wall Street banks for fast profits.
- Ameriquest's mortgage fraud contributed significantly to the current financial crisis.



What is Risk?

- Possibility of loss or injury.
- Someone or something that creates or suggests a hazard.
- The chance of loss or the perils to the subject matter of an insurance contract and the degree of probability of such loss.
- A person or thing that is a specified hazard to an insurer, i.e., an insurance hazard from a specified cause or source, such as war, floods, etc.



Risk Management

A structured approach to controlling uncertainties and potential dangers by assessing what the particular uncertainties or dangers are, then developing strategies to minimize or mitigate those uncertainties or dangers.



Enterprise Risk Management

Defines risk as a possible event or circumstance that can have a negative impact on an enterprise's resources (human and capital), its products and services, or the customers of the enterprise, as well as external impacts on society, markets, or the environment.



Effective Risk Management

- Identify, characterize, and assess threats
- Assess the vulnerability of critical assets to specific threats
- Determine the risk (i.e. the expected consequences of specific types of attacks on specific assets)
- Identify ways to reduce those risks
- Prioritize risk reduction measures based on a strategy



Ideal Risk Management

A prioritization process whereby the risks with the greatest loss potential and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss potential are handled in descending order.



Opportunity Cost

- The cost related to the next-best choice available to someone who has picked among several mutually exclusive choices. It expresses "the basic relationship between scarcity and choice."
 - Example: An organization that invests \$1 million in acquiring a new asset instead of spending that money on maintaining its existing assets incurs the increased risk of failure of its existing assets. The opportunity cost of the decision to acquire a new asset is the security that comes from maintaining its existing assets.



Principles of Risk Management

- Create value
- Be an integral part of organizational processes
- Be part of decision making
- Explicitly address uncertainty
- Be systematic and structured
- Be based on the best available information
- Be tailored
- Take into account human factors
- Be transparent and inclusive
- Be dynamic, iterative and responsive to change
- Be capable of continual improvement and enhancement



Risk Mitigation Measures

- **Avoidance** (eliminate, withdraw from or not become involved)
- **Reduction** (optimize - mitigate)
- **Sharing** (transfer - outsource or insure)
- **Retention** (accept and budget)



Examples of Public Entity Trends

- According to CNNMoney.com, in 2008, more than 45,000 government layoffs were announced.
- To address a \$50 Billion deficit, Kansas City closed nearly 50% of the district's public schools, eliminating more than 700 jobs earlier this year.
- Facing the largest municipal bankruptcy in history—a \$3.9 Billion deficit—Jefferson County, Alabama, drastically cut services and laid off 25% of its workforce last summer.



State Risk Challenges

- 94,870 FTE
- 325 elected officials
- 35 appointed officials
- 500 sworn officers
- 6500 jail cells in two locations

State Risk Challenges (cont.)

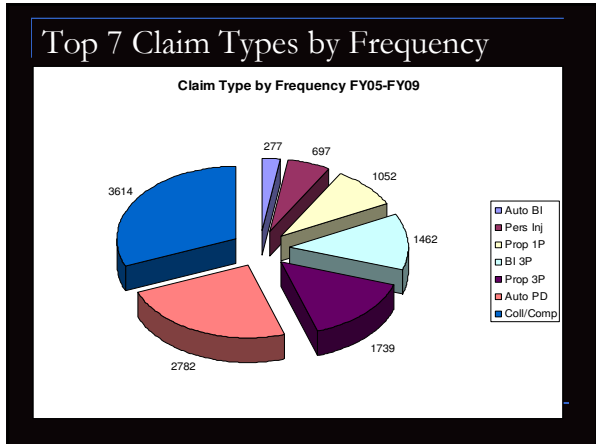
- 15,356 lane miles of paved streets/roads
- 1,800 bridges
- 6 marinas/wharves
- ~70 watercraft
- 3 health clinics
- 75 libraries/museums

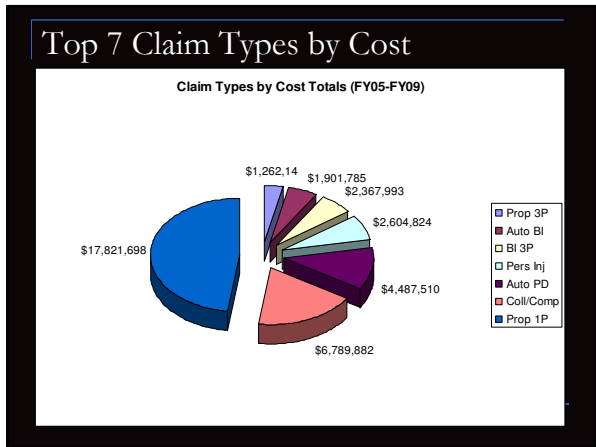
State Risk Challenges (cont.)

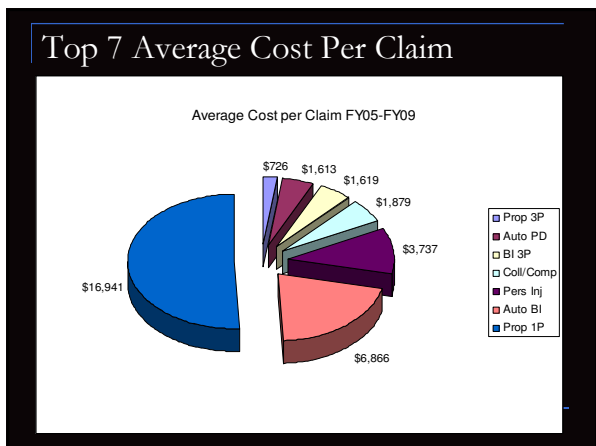
- 5 golf courses
- 15 indoor swimming pools
- ~30 outdoor swimming pools
- 41 state parks
- ~17,000 features associated with abandoned mines

State Risk Challenges (cont.)

- 12 stadiums/grandstands
- 72 institutionally owned aircraft
- 10,907 vehicles
- 525,660 school district pupils







Down-Sizing Risks

- Wrongful termination
- Harassment
- Discrimination
- FMLA Interference
- Workplace Violence



Significant Challenges/Concerns

- Implications of GIA for out-of-state claims
- Difficulty in proving a claim was avoided
- Consequences of policy exclusions
- Accurate, complete property schedules and valuations



Questions?

Brian Nelson, J.D.
State Loss Control Program Administrator
Utah Division of Risk Management
5120 State Office Building
Salt Lake City, UT 84114
Phone: 801.538.9576
Email: benelson@utah.gov

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