

JUSTIFICATION
FOR OTHER THAN FULL AND OPEN COMPETITION

1. Contracting Activity: Department of Veterans Affairs (VA)
Office of Acquisition Operations
Technology Acquisition Center
23 Christopher Way
Eatontown, NJ 07724

2. Description of Action: The proposed action is for a firm-fixed-price contract for continued use of the VA Loan Electronic Reporting Interface (VALERI) software application and associated services. The period of performance for this proposed contract will consist of a 3 month base period with four 12-month option periods, and 9-month option period.

3. Description of Supplies or Services: VA Loan Guaranty Service (LGY) is a part of the Veterans Benefits Administration Office and provides home loan benefits to eligible Veterans obtaining mortgage loans through private lenders by guaranteeing a portion of the loan against default. This guaranty protects the servicer against loss up to the amount guaranteed and allows Veterans to obtain mortgage loans at competitive rates with little or no down payment. When a default occurs on these guaranteed loans, the VALERI software application facilitates VA's ability to assist Veterans in retaining their homes and minimizing their financial losses. VALERI software application is a web-enabled rules-based application that was deployed in 2008 to improve VA's oversight capability and to reduce the cost to the Government for the servicing and liquidation of VA-guaranteed loans. VA depends exclusively on the VALERI software application for loan management services for over 3.5 million loans. The VALERI software application facilitates the interface between VA and 500 mortgage servicers, allowing mortgage servicers to report significant events to VA focusing on default, loss mitigation, foreclosure, and claim payments via automated loading of updates from VA mortgage servicers. The proposed action is for continued use of the VALERI software application for up to 9.5 million loans, 370 million loan transactions, and to acquire continued VALERI services. These services include the hosting and maintenance of the VALERI software application, and helpdesk support services for all VALERI users. The aforementioned services will allow VA to meet its mission by maintaining services to Veterans, maintaining oversight capability over VA loan servicers, and reducing the cost to the Government for defaulted loans. The total estimated price of the proposed action, inclusive of the option periods, is \$85,769,070.00.

4. Statutory Authority: The statutory authority permitting other than full and open competition is 41 U.S.C.3304(a)(1) as implemented by the Federal Acquisition Regulation (FAR) Subpart 6.302-1 entitled, "Only One Responsible Source and No Other Supplies or Services Will Satisfy Agency Requirements."

5. Rationale Supporting Use of Authority Cited Above: The proposed source for this effort is Black Knight InfoServ, LLC (Black Knight), 601 Riverside Ave., Jacksonville, Florida 32204. The VALERI software application and associated services facilitate VA's ability to assist Veterans in retaining their homes and minimizing their financial losses. This includes providing Veterans assistance earlier in the default, ensuring Veterans receive substantive loss mitigation, creating a total case management environment for VA staff, and assigning post-audits of servicer actions to ensure regulatory compliance. Without VALERI, the ability of VA-guaranteed mortgage servicers to assist Veteran borrowers and their families experiencing financial difficulty would be measurably compromised. Specifically, VALERI provides real time, critical information used by VA's loan technicians to complete VA Compromise Sales (short sales), loan modifications, pre-approvals for loss mitigation actions on behalf of Veterans. If the VALERI software application and associated services are not obtained, LGY will be forced into a paper-based manual work process environment, severely hampering LGY'S ability to perform its duties on a timely basis, resulting in an increase in the number of foreclosures of VA-guaranteed loans and homeless Veterans. As a result of the VALERI software application, LGY is able to save approximately 80,000 Veterans from foreclosure each fiscal year (FY) for a cost savings to the Government of approximately \$2.8 billion. Prior to VALERI, LGY was only able to save approximately 12,000 Veterans from foreclosure per FY.

Additionally, VALERI enables LGY to adhere to statutes and regulations in 38 U.S.C. §3732(a)(4)(A)(B), 38 C.F.R. § 36.4300-4338, and 38 CFR § 36.4324, which requires VA to 1) Provide loss mitigation to defaulted borrowers, 2) Pay claims timely, and 3) pay claims electronically. If VALERI services are not obtained, LGY will be violation of these statues and regulations. Furthermore, VA is required to comply with the Prompt Payment Act of 1999. Under this Act, all late payments made by the Federal Government incur financial penalties. If VA paid all foreclosure claims 30 days late (20 thousand foreclosures per year) VA would incur approximately \$6M per year in penalties based on the Prompt Payment Act website calculator.

Only Black Knight can provide the VALERI software application and associated services that meet all of VA's needs and ensure complete interoperability, compatibility, and continuity of operations by June 30, 2016, which is when the current contract expires. Black Knight owns the source code of the current version of VALERI. Use of any other service provider would require the re-development of VALERI. In November 2015, VA Office of Information & Technology completed their independent assessment which determined that rebuilding VALERI will take over three years to design, develop, test and deploy. The VALERI software application is the only application that meets all of VA's functional requirements. Specifically, it is the only application that integrates with nearly 500 mortgage servicing systems and mortgage servicing bureaus to support daily updates of all VA-guaranteed loans; interfaces with VA's Financial Management System and the Web-enabled Loan Guaranty and Appraisal System to support data exchange and financial transactions with the mortgage servicers; provides a rule based and role-specific graphical user

interface capable of supporting over 4,500 users of which 1,000 are using the application concurrently; and offers 2 terabytes of storage for data on over 3.5 million VA loans. Black Knight owns the proprietary source code to VALERI and is the only source able to host and maintain the application. Any other source would need access to Black Knight's proprietary source code in order to provide updates, fixes, and enhancements to VALERI. Black Knight has exclusive rights to the software code for the VALERI application associated with this requirement and, as such, is the only known vendor that can provide these services. The Government contacted Black Knight on several occasions, most recently in April 2016, to ascertain its interest in selling the required proprietary source code. Black Knight informed the Government that it would sell its proprietary source code for \$36,401,856.00. However, the source code Black Knight would provide VA does not include the entire set of system documentation currently used to maintain VALERI operations. Specifically, some elements of the system documentation are considered proprietary and would not be available to VA if VA were to purchase the application. For instance, when VA elected to off board the inactive loans from the VALERI platform, Black Knight considered specific system design documents describing the database structure as proprietary and not for sale. Extensive system documentation is critical to the sustainment and enhancement of the application, and therefore VA efforts would be dramatically encumbered. Additionally, VALERI was designed, coded, tested and deployed prior to 2008 and will become obsolete within 3-5 years. VA, like all organizations, improves standards in design, security, sustainment practices, etc. The existing source code is not written in a manner that provides the flexibility to adjust and integrate VA enterprise-level mandates concerning these standards. For instance, VA has included requirements for the next version of VALERI to provide Customer Relationship Management (CRM) like utilities, the ability to collect and automate additional data from mortgage servicers, improved reporting capabilities, etc. The existing source code cannot be modified to support these requirements. Procuring this source code would not obviate VA from building a new version of VALERI in the next 3-5 years due to known and emerging requirements that cannot be supported in the current version. In addition, Black Knight would no longer provide critical enhancements that are required by VA, state or federal law. In FY15, Black Knight spent 9,968 hours on enhancements based on requirements and priorities established by the VA, and in the instance of state and federal legislation, mandated by law. Enhancements can vary significantly in the level of complexity; however, every enhancement requires changes to VALERI code. VALERI consists of over 1 million lines of source code. Any change introduced into the VALERI environment must undergo rigorous unit, functional, and regression testing that provides confidence that the change does not introduce new defects in an otherwise stable application. Testing is meticulous, repetitive, and consistent due to the accumulation of Black Knight proprietary test scripts that have been developed and enhanced over time. These automated test scripts reduce the time to market for new enhancements, some required by law, by an exponential factor. Any source, other than Black Knight, assuming the responsibility of enhancing the VALERI system would need to procure an automated test script tool and also

generate a library of test scripts able to certify code, a task that Black Knight has evolved and mastered since the inception of the VALERI application.

Furthermore, one critical function that VALERI performs is collecting, testing the integrity of, synthesizing and driving workflow from daily data files received from the 500 VA mortgage servicers nationwide. Should VA choose to purchase VALERI, VA would be responsible for creating and managing connectivity agreements, known as Interconnection Security Agreement/Memorandum Of Understanding (ISA/MOUs), between the VA and mortgage servicers. These ISA/MOUs include requisite federal and VA specific standards not mandated currently, given that servicers are connecting directly to Black Knight and not VA. Assuming that the mortgage servicer community complies by entering into new ISA/MOUs, all 500 mortgage servicers would need to change their internal systems to connect to new Internet Protocol addresses provided by VA. The connectivity, and the underlying ISA/MOUs, would require extensive testing, monitoring and management exclusively by VA. The result of these additional agreements would be additional material costs that VA would need to pay to keep the VALERI application operational

6. Efforts to Obtain Competition: Market research was conducted, details of which are in section 8 of this justification. This effort did not yield any additional sources that can meet the Government's requirements. There is no competition anticipated for this acquisition. Additionally, the proposed action will be synopsised on the Federal Business Opportunities (FBO) page in accordance with FAR 5.201. Any proposals that are received shall be evaluated.
7. Actions to Increase Competition: The Government's technical experts will continue to conduct market research to identify new products that may provide similar functionality as the VALERI application. Should such products become available; the VA will review and consider these products for future requirements. In addition, VA intends to release a solicitation for the development of a web-based loan management system consistent with existing VALERI capabilities in FY17. The new system will be owned by VA, thereby eliminating barriers to competition for future support services. Furthermore, the Government's technical experts will conduct market research prior to exercising each option period under this proposed action to ascertain if any other service providers are available to enable competition. If such products or services become available prior to the commencement of the option period(s), and it is determined that such services are more advantageous to the Government, the VA will not exercise the option period(s).
8. Market Research: The Government's technical experts conducted market research by posting a Request for Information (RFI) on July 21, 2015 on the FBO page. The intent of the RFI was to ascertain the ability of any other software application to meet VA's needs. Responses were received from 10 vendors, 5 of which did not provide a responsive answer. The remaining five that provided a responsive answer are Black Knight, [REDACTED]. Of the five responses to the RFI, only

Black Knight provided the requisite capabilities needed to meet all of VA's needs without an interruption in service.

The [REDACTED] response to the RFI showed that its current offering is insufficient to satisfy VA's functional requirements, as outlined in section five of this justification, until it acquires and customizes third party software currently in development. In its response, [REDACTED] indicated it could develop an application capable of meeting VA's needs in 12-months, however, [REDACTED] failed to account for any of the hardware development requirements in its estimate. Based on this information VA determined that the current Unisys software application cannot meet VA's requirements.

The [REDACTED] response to the RFI showed that its current offering is insufficient to satisfy VA's functional requirements, as outlined in section five of this justification. [REDACTED] identified a small set of functionalities that could be customized within 23 months to meet VA's requirements. However, this product does not provide a valid offering capable of fulfilling the entire requirement, as sought by VA.

The [REDACTED] response to the RFI showed that its current offering is also insufficient to satisfy VA's functional requirements, as outlined in section five of this justification. [REDACTED] indicated that a combination of proprietary and open source technology would be required to deliver VALERI capabilities and that the development would take 23 months. This does not meet VA's requirements for seamless support.

The [REDACTED] response to the RFI showed that its current offering is also insufficient to satisfy VA's functional requirements, as outlined in section five of this justification. [REDACTED] stated that they could deliver VALERI requirements within 36 months by integrating new code into existing LGY technology platforms. This does not meet VA's requirements for seamless support.

Black Knight's response clearly articulated its ability to meet all of VA's requirements. Based on this market research, the Government's technical experts confirmed and concluded that only Black Knight can meet all of VA's needs without an interruption in service.

The Government contacted [REDACTED] in May 2016 and advised them of the Government's assessment that they could not meet VA's needs at this time. They did not object. No other responses were received. Based on this market research, the Government determined that there will be no competition for this proposed action.

9. Other Facts: The Office of Information and Technology developed an Independent Government Cost Estimate (IGCE) to replace the existing VALERI application. The IGCE showed a 30-month timeline to build and deploy a loan application system

capable of meeting VA requirements. VA estimates that it will take an additional 12 months after development to migrate the 500 mortgage servicers that integrate with VALERI and train over 4000 mortgage servicing employees and over 400 VA employees, nationwide.

10. Technical and Requirements Certification: I certify that the supporting data under my cognizance, which are included in this justification, are accurate and complete to the best of my knowledge and belief.

[Redacted]

Date: [Redacted]

Program Manager

Signature: [Redacted]

11. Fair and Reasonable Cost Determination: I hereby determine that the anticipated price to the Government for this contract action will be fair and reasonable based on the fact that the proposed prices will be compared with competitive published price lists for similar services and with prices obtained through market research for the same services. Additionally, other than certified cost or pricing data may be analyzed to further support a fair and reasonable price determination. Finally, for the purposes of further price analysis, the proposed price will be compared to the IGCE.

[Redacted]

Date: [Redacted]

Procuring Contracting Officer

Signature: [Redacted]

12. Procuring Contracting Officer Certification: I certify that this justification is accurate and complete to the best of my knowledge and belief.

[Redacted]

Date: [Redacted]

Procuring Contracting Officer

Signature: [Redacted]

13. Legal Sufficiency Certification: I have reviewed the justification and find it adequate to support other than full and open competition and deem it legally sufficient.

[Redacted]

Date: [Redacted]

Deputy Assistant General Counsel
Office of General Counsel

Signature: [Redacted]

Concurrence

Based on the foregoing justification, I hereby concur with the acquisition for VALERI support services in the estimated amount of \$85,769,070.00, on an other than full and open competition basis pursuant to the statutory authority cited in section 4 above, subject to availability of funds, and provided that the property and services herein described have otherwise been authorized for acquisition.

Date: [REDACTED]

Signature: [REDACTED]

Head of Contracting Activity
Office of Acquisition Operations

Approval

Based on the foregoing justification, I hereby approve the acquisition of VALERI support services, on an other than full and open competition basis pursuant to the statutory authority cited in section 4 above, subject to availability of funds, and provided that the property and services herein described have otherwise been authorized for acquisition.

Date: [REDACTED]

Signature: [REDACTED]

Senior Procurement Executive