

MORTGAGE SERVICING NEWS

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Bringing Order During Times of Chaos

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The chaotic environment in the mortgage industry continues to challenge mortgage lenders and servicers across the country. Mortgage loan default and foreclosure volumes are still on the rise, the pressure to get loans modified or refinanced is intense, and it's all happening while regulatory and investor changes are coming fast and furious. Many servicing operations are already taxed to the breaking point while others are barely keeping up with the frantic pace.

Certainly, these conditions have been in play for many long months now. Unfortunately, for most servicers, the difficulties have continued to escalate rather than improve. Like ocean waves that come in rapid succession, servicing organizations are faced with volumes that are surging more rapidly than their ability to manage them. Employees are caught up in the undertow, customers are desperate to get help and no one can say when things will get better.

At times like these, it seems impossible to do anything but just keep plowing ahead. Servicing managers may know that operational improvements could help the situation, but the thought of trying to tackle new initiatives in the midst of unrelenting volume is one they quickly dismiss. They correctly believe that they cannot afford to lose any ground right now, even if it is for the long-term good of the organization.

But, there is a way to continue processing ballooning default volumes and keep operations on track even while undertaking significant improvements. In fact, right now is absolutely the best time to address underlying processes that could be streamlined to

make servicing operations more efficient than ever.

High Stakes Gamble

The stakes are high. Volume spikes in the default area pack the highest potential for monetary losses to servicers. While a variety of numbers are floating around the industry, at least one report indicates that servicers lose an average of \$35,000 on each loan that goes into REO status.

Regardless of the reason for a surge in volume — widespread job losses in an economic downturn, weather events (floods, tornados, hurricanes, etc.) or a series of increases in adjustable-rate mortgage payments — defaults can suddenly overwhelm servicers and leave them struggling to survive. To complicate matters further, a single overnight event like a disastrous hurricane can increase volumes by 100% or more. When the surge in volume does come, trying to address underlying operational issues at that point is like trying to change a tire on a car going 90 miles an hour.

What was once a well-organized default department begins to falter as it struggles to adjust to the frantic pace of the high-demand environment. Employee stress levels go through the roof, wait times for borrower

calls increase (if they get answered at all); written customer inquiries get buried under mountains of paperwork; and already distressed customers become angry — sometimes taking it out on their properties — or simply give up.

Understandably, servicing managers may try to manage the volume increase by beefing up staffing levels, often reassigning employees from other functions in the organization. Others attempt to shift the overflow into customer service or call center environments, but default management is a complicated process that is best handled by seasoned professionals. Without a strong default management background, employees who suddenly find themselves assigned to this area can unwittingly breach regulatory, investor or guarantor requirements, putting the servicer at greater financial risk.

While the sheer number of defaults may indeed require managers to ramp up staffing, this is not the only approach servicers should consider — particularly if they are concerned about controlling costs.

The Risks are Many

To help mitigate the negative effects of volume spikes and strengthen overall operations, servicers can tap a trusted out-

POINT OF VIEW



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side partner to re-evaluate the organization's policies, processes and procedures even while staff members continue to use them to manage their daily workload. Mortgage industry professionals with strong servicing operations expertise can literally step into the trenches with departmental staff members to help keep things on track while processes are reviewed and, when necessary, modified for improvements or eliminated.

Volume surges serve to highlight inherent weaknesses in operations that may have gone unnoticed — or simply failed to register alarm — in a more stable market environment.

For example, when the default department begins to struggle under increased volume it may become apparent — at the worst possible time — that documented processes and timelines for investors and guarantors are not current.

Failing to adhere to investor or guarantor timelines can carry stiff financial penalties for servicers. Investors may deny property claims if servicers fail to meet required guidelines, giving servicers no choice but to absorb associated losses. In addition to investor guidelines, servicers must also be sure to meet all guarantor guidelines. If a loan is covered by private mortgage insurance — which will cover a loss up to 20% of the original loan amount to ensure the investor is made whole — and the servicer

fails to meet those guidelines, the investor will expect the difference to come from the servicing organization. Writedowns on these loans can be in the order of tens of thousands of dollars.

Even under the best of circumstances, volume spikes greatly increase the likelihood that servicers will experience both systemic and human failures. Processes and procedures that are effective during times of normal workload demand can suddenly become painfully inadequate.

These inadequacies can quickly be uncovered and addressed by outside experts that have experience with a large variety of servicing organizations and every imaginable operational footprint. This level of expertise is invaluable to a stressed servicing operation.

The Value of a Trusted Partner

If the servicing organization aligns itself with a trusted partner with strong domain expertise, inefficiencies can be resolved and potential pitfalls avoided through a comprehensive evaluation of the organization's policies, processes and procedures. The ideal approach is to work with a partner that will bring two separate and distinct teams to the project. The first team is dedicated to a complete business review, examining all of the organization's processes and determining ways to improve or eliminate them. The second team

is dedicated to working with the servicer's staff members to help them stay on track until the organization begins to see defaulted loans coming through the new and improved processes. When the partner dedicates an experienced team to work hand-in-hand with the servicing staff, it becomes easier to further refine processes going forward.

It also allows both the partner and the servicing manager to better understand what the underlying issues are and how best to address them.

Ultimately, mortgage servicers need not settle for less than high performing, efficient operations — despite today's difficult environment of record-setting volumes, rapid-fire change and steep financial risks.

It just makes good business sense for servicing organizations to align themselves with an experienced partner that understands their operations and knows exactly where to look for both weaknesses and opportunities. Failing to take this step will only make a chaotic period in the industry more difficult for servicers to successfully navigate.

Those that take aggressive steps to strengthen and maximize their operational efficiency right now will find they are better equipped to meet today's challenges while positioning themselves for a brighter future.



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