Overview

It’s time for the servicing industry to step outside of its antiquated and outdated processes and into the high-tech revolution that the rest of the housing finance industry is experiencing.

Between the impact from the devastating destruction caused by the natural disasters last year to a disproportionate focus on the origination market versus the servicing market, homeowners need transparency, speed and tech innovation more than ever before.

While modernizing the origination process cut the time to close a loan to mere weeks, no one is focusing on the 30 years that the borrower is paying back the loan.

The servicing sector can’t sit back as the rest of the industry outpaces it in borrower and lender satisfaction. Instead, the industry can and will step up to provide lenders the service and tools they need to fix the long-term relationship with borrowers.

A reality check

While there has always been a stigma around the servicing industry’s archaic process, few have had any incentive to fix it.

The recent hurricanes this past year, however, gave lenders no choice but to assess how well their subservicers could handle an influx of borrowers needing support on making their payments.

Unfortunately, once the initial market impact reports started to come in, it exposed serious weaknesses in the industry, as borrowers in Florida and Texas were both at risk of spikes in mortgage delinquencies.

Beyond the fact that hurricane season happens every year, along with other unforeseen natural disasters, the industry is constantly dealing with the typical challenges that impact a borrower’s ability to pay.
One notable area that impacts borrowers is when the Federal Reserve decides to raise interest rates. As the Fed elects to raise interest rates, which they have slowly been doing, the cost of consumer debt increases, such as credit cards and auto loans. This tends to result in borrowers and homeowners having less discretionary income, meaning they are more likely to start defaulting on their mortgage.

The charts below show how many times the Fed has raised interest rates since December 2015. They also show how much consumer debt, excluding housing debt, has gone up since the fourth quarter of 2015.

Lenders are left to trust that their subservicer is properly mitigating delinquency risks on all fronts and properly communicating with borrowers throughout the entire process.

For example, in the situation that a borrower might have less discretionary income and start defaulting on their mortgage, subservicers need to be watching for different payment habits forming.

If a borrower cancels their autopay or if they change their payment date to be further back in the month, it could also be an indication they are struggling with their ability to pay. Subservicers need to be trained to quickly reach out if they see any of these indications.

The good news is that the industry is more than capable of processing and handling impacted borrowers in a timely fashion, regardless of their life circumstance.

We know this because we have seen it done through our own platform. The TMS subservicing platform, SIME, Servicing Intelligence Made Easy, provides full transparency into a lender’s loan portfolio in real time while providing the tools for oversight that subservicers and lenders can rely on. It’s this platform that created the foundation for the checklist on page 4.

*Source: The Federal Reserve*

*Source: The Federal Reserve Bank of New York*
The facts

The health of a lender’s business rides on the status of their compare ratio, and a high compare ratio could have serious consequences for a lender.

The Federal Housing Administration, which sets the standards for underwriting and insures loans, calculates compare ratios for all FHA-approved lenders and uses the information to decide whether or not it will work with a lender.

According to the FHA, compare ratios are calculated by comparing the rate of early defaults and claims for insured single family mortgage loans originated or underwritten by the mortgagee in an area with the rate of early defaults and claims for other mortgagees originating or underwriting insured single-family mortgage loans in that same area.

If the ratio goes too high, the lender is at risk of being cut off by the FHA. However, there are ways to mitigate this risk, as seen in the checklist on page 4.

As a preview of the checklist, one of the most critical steps subservicing companies need to be doing to ensure the health of a portfolio is analyzing payment habits to ensure accurate focus on all accounts.

Risk spotlight

Digging further into the example of the recent hurricanes, the chart below gives a pulse of how Florida and Texas were impacted in terms of mortgage delinquencies.

The chart spotlights the surge in seriously delinquent loans and claims after the hurricanes destroyed Florida and Texas.

Before the hurricanes hit, the U.S. Department of Housing and Urban Development said the 1-year FHA portfolio Seriously Delinquent and Claims percentage in Florida and Texas sat at 0.34% and 0.35%, respectively, in the third quarter of 2017.

Then, shortly after the hurricanes, the Seriously Delinquent and Claims percentage in Florida and Texas for 1-year FHA mortgages surged, growing to 5.25% and 1.72%, respectively, as of February 28, 2018.

Seriously delinquent and claims percentage in Texas for 1-year FHA mortgages

*Source: The U.S. Department of Housing and Urban Development*
To ensure compare ratios don’t go through the roof, run through this checklist of what subservicing companies need to be doing.

Subservicers need to:

- Identify compare loans in the portfolio (at time of loan boarding).
- Create call strategies on best contact time and earlier in the month.
- Analyze payment habits to ensure accurate focus on all accounts.
- Hold daily and monthly loan tracking based on the rolling age (develop a strategy around aging).
- Assign best collections staff to 60+ day compare loans.
- Implement comprehensive Pre-30 days outbound calling strategies with early loss mitigation intervention training.
- Track daily payments on future dated payments/promise to pay.
- Generate monthly escrow projections at loan level for potential payment shock and shortage spreads—not just an automatic spread.
- Reconcile Compare Loans to the Master Data provided by HUD monthly.
- Generate monthly projections based on 25th month aging roll-off.
- Track delinquencies based on FICO bands and payment habits—originations and quarterly FICO updates.
- Identify and speak with impacted customers. It’s critical to establish contact after a disaster.
- Process disaster modifications or other loss mitigation options based on staffing and capacity without impacting the rest of the portfolio.
- Stay on top of the guidelines and understand the GSE requirements, as the requirements are changing based on the overall impact.
- Assist customers with property-related issues.
- Provide daily detailed reporting on the loans within the declared disaster area.

Total ____ out of 16.

<table>
<thead>
<tr>
<th>If the total was between...</th>
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<tbody>
<tr>
<td>1-4</td>
<td>It’s time to start shopping for a new subservicer.</td>
</tr>
<tr>
<td>5-8</td>
<td>Consider why the total was so low. Are you okay with less than half?</td>
</tr>
<tr>
<td>9-12</td>
<td>Not a bad score but there is room for improvement.</td>
</tr>
<tr>
<td>13-16</td>
<td>Your subservicer is doing a good job. Keep up the open line of communication.</td>
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How do you hold up?

Each item in the checklist is vital to maintaining and sustaining a healthy portfolio. Without analyzing payments on all borrower accounts, tracking delinquencies on FICO bands and tracking daily payments, compare ratios will jump due to an increase in mortgage delinquencies.
Can your subservicer provide delinquency trends in real time? Are they staffed enough to handle an increase in delinquencies and resulting loan modifications? In what time frame do they expect to handle loan modifications resulting from natural disasters?

It's imperative that subservicers adhere to the checklist since it is a standard that the industry can be held to, as we have seen through our own subservicing platform.

We don’t simply view analyzing payments on all accounts or tracking delinquencies in real time as perks of our platform, but rather crucial elements that lenders deserve and need to have in order to maintain a healthy portfolio.

Each element on the checklist should be a customary requirement for subservicers, and we’re here to prove it to anyone who believes this isn’t possible. If the front end of the mortgage process can be digitally transformed, the back-end can be digitally transformed too. We believe this because we’ve already done it with SIME. We’re here to disrupt the subservicing industry and show lenders that they do have an innovative option when it comes to subservicing.

The world of Subservicing just got disrupted.
Last year, TMS launched its web-based loan servicing platform, SIME (pronounced Sim-mee), stands for: Servicing Intelligence Made Easy. SIME provides full transparency into your loan portfolio in real time while providing the tools for oversight that Servicers and Lenders can rely on.

For more information and to see how it works, visit www.GetSIME.com

Benefits of partnering with TMS

• End-to-end compliance and regulatory management while we handle all of the critical back-office functions
• Fully branded platform and customer call centers in YOUR brand identity so you remain the face your clients have come to know and trust
• Proprietary technology in real time that analyzes payments on all borrower accounts
• Helps stay on top of delinquent loans thanks to the platform’s tracking capabilities
• Unique solutions for management to create portfolio projections to ensure the safety of your business in the future