Mortgage Servicing News

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By Amilda Dymi

Insiders expect significant servicing quality control cost increases as mortgage servicers go under financial and political pressure to implement efficient systems.

Maybe the biggest lesson learned from “foreclosure-gate” is that servicers need to slow down, says Gagan Sharma of BSI Financial Services, Irving, Texas. A few “extra steps and checkpoints” may help control the risk of unforeseen processing costs. The servicing industry has already streamlined processes “as much as possible,” he says, now that foreclosure-gate is making people realize that “there is so much streamlining you can do.”

Among others the industry is facing tactical issues such as whether borrowers should have signing authority over investors, and other mortgage process control issues. These challenges require qualified servicing staff that has the expertise to make in-depth loan file revisions and take the right decisions, not incur losses. Nobody wants “a junior loan processor signing on a several-hundred-thousand-dollar transaction,” Gagan says.

As servicers review their practices more voluntary and legal foreclosures are on the horizon. A recent Moody’s report notes that foreclosure proceedings and extended foreclosure timelines will incur “higher carrying costs on loans” and ultimately reduce recovery amounts when properties are liquidated. Plus servicers are required by law to assume the costs of unusual servicing, especially the carrying costs.
Most of the servicing and subservicing activity has been in the distressed asset market. Gagan says lenders are working with investors to secure funding they need to conduct workouts that include anything from loan modifications to real estate owned property liquidation.

And that is how the vicious circle begins. Together, increased legal challenges and prolonged foreclosure timelines are expected to further strain already-thin court resources, reduce homebuyer appetite for foreclosed properties and generate higher losses for investors. The reason, Moody’s analysts warn, is that a full loan-level review of defaulted loan portfolios and servicer procedures even in cases that are in compliance with all applicable state laws will extend foreclosure timelines by at least three to six months. If that is the case the impact on RMBS investors will be minimal. But if there is a back-end loss scenario where average resolution timelines for loans currently in foreclosure are 22 to 24 months costs will be much higher.

The Dodd-Frank Act and the recent jump in demand for loan document and foreclosure process reviews that are affecting the nonperforming mortgage market is a process that has the same downside as HAMP and other programs. Document and servicing process review guidelines from the regulators will take some time to take shape.

Consequently there will be more extended foreclosure timelines that fuel demand for subservicing and increase mortgage servicing costs.

Steven Horne, CEO of Wingspan Portfolio Advisors, agrees that subservicers and specialty servicers are in greater demand than ever and expected to work their magic to keep homes from entering the foreclosure process. He finds that more often than not results justify associated costs.

According to Gagan, while servicers are conducting technical reviews of loan and foreclosure proceedings “the wild card” in their hands is litigation that can be very costly.

Between hte present and 2006 when the firm was established, he recalls, the number of new regulatory requirements has increased along with volume of delinquencies. As servicers review foreclosure documents and processes compliance with regulatory requirements at the federal and the state level where more changes take place has become even more challenging.

Along with document reviews servicers are reviewing their subservicer partners from a legal and process perspective “to make sure they’re dotting the i’s and crossing the t’s.”

“It is important for servicing to be focused and do everything correctly every step of the way,” Gagan says, and servicing quality control technology can help. It can improve the way foreclosure document data are gathered and reported, avoid “robo-signing” and ensure a borrower’s signature is authenticated before the foreclosure or any loan closing is filed, or that affidavits are done properly.

The loan servicing method used by BSI Financial Services helps reduce error risk by assigning having the same person monitor the life of the loan. “That person is much more intimately involved with the file and can work with the borrower all the way through foreclosure if need be.”