Spotlight
Servicing Fee Change

Some specialty servicers would benefit from proposed servicing fee changes, as they would be paid more for servicing troubled loans. Mike Wileman, left, and Gagan Sharma were two of the participants at SourceMedia's Mortgage Servicing Conference.

Tuesday, April 19, 2011

At the Fifth Annual SourceMedia Mortgage Servicing Conference in Dallas, attendees concerned about the future of their industry discussed proposals to change the mortgage servicing fee structure and the realignment of servicer incentives, changes in definitions and foreclosure timelines, the consequences of frequent regulatory updates and whether all these concentrated efforts are simply postponing the inevitable.

Mark Fogarty, executive editor of SourceMedia's Mortgage Group, and Amilda Dymi, managing editor/Web editor of Mortgage Servicing News, sat down with industry experts
Gagan Sharma, president and CEO, BSI Financial Services;
Mike Wileman, president and CEO, Orion Financial Group;
Alan Paylor, president, RMS Asset Management Group;
and Steven Shiller of Wingspan. (Second of two parts.)

Fogarty: What do you think about ideas about changing the way servicers get paid? The Fannie and Freddie servicing fee is 25 basis points, Ginnie Mae has been 44 basis points. According to my research, that's Adam and Eve. So how do you react to this possibly changing, and what's the reason for it?

Sharma: It may not necessarily be a bad thing. The aspect about the 25 or the 44 basis points may be more than what's necessary for performing loan servicing and may be less than what is necessary for distressed loan servicing. So in effect, those 25 and 44 big numbers assume a certain delinquency in the portfolio. But then what we've seen in the last two or three years is, when delinquency goes off the charts and the numbers go much higher than what people have forecasted, the fees don't provide the dollars that are necessary to do the right job in some sense. As a special servicer, we are structured—our fees are structured very differently than the traditional Fannie/Freddie model.

Fogarty: You have a higher cost of service.

Sharma: Higher cost of service, but also what I have heard is that the aspect about a lower fee for the performing loan and a much higher fee for a distressed loan is probably the way to go. The numbers clearly have to be worked out, and I think the aspect about alignment of incentives so that the servicer's almost not incented to let the loan go late so that they can collect the additional fee, so there is that aspect to, how do you handle the alignment of incentive between the end investor and the servicer? But we think that actually this change of fee schedule may be a big positive.

Fogarty: That's interesting, and it's changing on both the origination side and the servicing side at the same time.

Sharma: Right.

Paylor: I would agree with Gagan wholeheartedly. I can remember, we used to live off ancillary fees back in the old days. We couldn't wait to see what our late charge income was. Now it's either waived or part of the deal and almost nonexistent. But the definitions between the performing and the nonperforming continue to change quite frequently, so as they vacillate, trying to maintain that fee structure and have a set fee paid by a large GSE or an investor will be somewhat hard to manage. But as a specialty niche servicer, we step out of the box and charge a different fee for our distressed properties as opposed to the performing loans. So there will be a challenge in doing that, but we'd be wholeheartedly in agreement of increasing those fees.

Fogarty: You mentioned delinquencies, Gagan. Do you guys think that—we've seen the last quarter or two, there's been some leveling off and even decrease in the MBA delinquency numbers. Do you think the peak has been reached, the tide has turned? Yes or no?

Sharma: That's really hard to know. There's so many factors that determine that. I don't know that I feel qualified to answer that question, candidly.

Fogarty: If not you, who? Foreclosure is projected to another million this year, and this will be the third straight year with a million-plus. Do you think it's going to take three or four or five years to work all this through the system?

Paylor: The news media—every day it comes out, you read the electronic mail coming out and there's good news and bad news every single day. But still, the shadow inventory's still there. The last publication of that is, there's still millions of properties that are in there and there's still negative equity. That's the challenge of all of us having, even as that continues to erode, it's a challenge. And I just think it's going to hang good another three, four years, for sure. I'd say you've got Florida, you've got the court systems, you've got people that just can't adapt to that volume. They're getting better at it. Mediation is helping a lot. We understand Florida's got several shops there that are running. So I dare say it's the court system, it's increased short sales, it's our only way out in some cases. So I've just got a feeling that it's going to inevitably delay a recovery in this market for quite some time.

Wileman: I would agree, too, not even being directly involved in it, but just the fact that between the regulation delays, I'm sure servicers are looking for things to do besides go to foreclosure. So whether it's deed-in-lieu, something, it's still going—you're still going to have challenged assets out there that people are trying to get rid of, and it's going to drive down home values. And that's what ends up impacting the whole market, what's sitting out there to be sold, the condition of them, things like that.

Sharma: One thing that I also feel is, going back to what we were talking about, the AG settlement and the whole aspect of dual-tracking, by making change to the regulations that are happening, are we increasing the timeline from delinquency to the completion of foreclosure? There was a statistic, I think it was an LPS statistic, showing the typical time that a loan is staying in foreclosure before it's completed has gone from, I would say, approximately 300 to almost 600.

Dymi: Yes, we wrote about that.

Sharma: So even if you take a certain number of loans or cases where borrowers have certain economic distress, it's just taking that much longer to have that distress come out of the other end of the pipe, so that only delays the eventual recovery at some point.

Fogarty: You make the case that delaying the foreclosures stretches them out so that they aren't all dumped in the market at once and cause an even greater decline in home values.

Sharma: Conceptually you could make that argument.

Fogarty: Choose your poison, I guess.

Sharma: Yeah, but it’s like, at what point do you take off the Band-Aid and go with the pain that is inevitable? You can, are we doing Japan all over again that it’s going to take us 10 years and then there would be a process where it just takes so long, that we are trying to delay the inevitable so much that, are we better off taking the pain in the shorter term to hopefully build the basis for the recovery? We don’t know.

Dymi: Yes, we don’t know what is the percentage of loans that are part of the inevitable foreclosure bucket. Has anybody yet, or rather can anyone come up with that number?

Shiller: We don’t know. We see the extended timelines; we see a lot of borrowers who have already walked away from the homes, so the time extension is not helping any type of recovery. The servicers are stuck and they can’t do anything, can’t take the property until the whole process is completed. But in the meantime, you have nobody living in the house or doing anything and the timeline has already increased another year, or another two years. You’re basically left to where we were today, which is: you have certain properties in certain areas. If you were able to start disposing of them today versus two years from now, three years from now, much to Gagan’s point: Do you strip off the Band-Aid, take care of the pain today or do you delay the inevitable?

Wileman: And to piggyback, I saw an article the other day that was very interesting. It said that the longer you have these delays and you’ve stopped what I call the circle of life in the real estate industry or the cleansing process—you’ve got origination and servicing, and if it goes to foreclosure then someone else buys it—you get to the point where all these properties are just sitting there. They said, we’re going to see homebuilding go up because we’re going to get to a point where people aren’t even looking at buying these properties because of all the issues that are tied to it whether it’s foundational issues or yes, the stigma, wood rot, whatever. You’ve got all these issues with the existing properties and it’s going to make it that much tougher to get rid of them and have someone in there with some pride of ownership and keep them going…

Fogarty: …get some help. Forty-year loans or whatever it is, on new home sales.

Dymi: Maybe homebuilders could repair all the REOs out there, just kind of switch the focus for a while.

Fogarty: Obviously the HAMP and HAFA programs haven’t done what they were set out to do. The question is, are they helpful at all?

Sharma: We have 600,000 HAMPs that have been done, so I think for those people, absolutely.

Fogarty: How many of them will redefault, do you think, 50%?

Sharma: Fifty percent. So one could argue that—let's say we have 300,000 borrowers in the end of it all. Again, was it worth it? Who knows? It's a really expensive way to help 300,000 borrowers.

Dymi: Yes. At least that seems to be the case…

Wileman: I think it's interesting. It's called HAFA program. It seems like it's been half a program. It hasn't been the full program.

Fogarty: They have revamped it. Now it's the other half.

Sharma: The one thing I would add is, HAMP seems to have gotten better lately, but in the beginning it seemed HAMP was changing. Every week, every month, there was this new directive that, as a servicer, we had to understand what does the new directive mean and how do we implement it? And so going back to what we said about compliance, this is another example of that.

Dymi: Yes.

Sharma: A new program is launched which changes many times in the interim, and it just makes it harder.

Dymi: HAMP is the worst example. Everybody was confused by it for the longest time, but if the new legislation will be handled the same way...

Fogarty: I heard somebody from Treasury say that their resolution for the new year was not to make any more changes in HAMP, so we'll see if they can live up to that restraint.

Sharma: I hope they have better luck than my weight loss resolution.

Fogarty: What else is hot and exciting in the business? Any kind of loss mit? Obviously short sales was last year's hot button item, loan mods the year before that. How about this year? Deeds-in-lieu? doorknockers? What's the hot trend?

Sharma: I think doorknockers. It has somewhat been an interesting trend. I think there are some concerns. With VC, there's some concern around how frequently we can use those. We think there are a lot of borrowers that could be helped if somebody could be sitting across the table and explaining it to them.

Dymi: Being there physically.

Sharma: Yes, physically. I'm like that. If somebody tries to explain something to me over the phone, I may or I may not listen. I think doorknockers could be an interesting solution. And if that can explain to borrowers cases where they can and cannot afford their property, that can lead to a better discussion, even if the doorknocker is not affiliated with a servicer, even if there was almost a third-party utility that we could tap into and say, hey, go to the borrower, explain to them what's going on. Maybe they don't trust the servicer as much in the personal situation that they're in.

Dymi: But given the number of people who are in trouble these days and needing probably that specific type of service, isn't that the most expensive approach?

Sharma: It is, but if you can…

Dymi: That's the most expensive and the best at the same time?

Sharma: That's exactly it, that it is more expensive but it also maybe has a higher degree of success. And so maybe that is the right answer. We don't know. Short sales are clearly going to be a big part of the solution.

Paylor: I would, again, agree with Gagan for sure. But also I'd tell you mitigation. These required meetings off from meeting with the attorney, meaning off-site at a separate facility and where both parties sit down, is becoming probably one of the most watched things. At least we're watching it very closely. And I'm just familiar with a group in Florida, and they're growing like gangbusters because of just the ability to get everybody at the closing table pretty quickly. All your options are explored. You get to feel the cost structure for doing that, and you have all the large players signing on as well, so it is an option that I think will continue to expand across the U.S. here pretty quick.

Dymi: Massive events like the ones Chase and Wells were doing recently…Both Chase and Wells have been opening up new mediation centers in different parts of the country.

Paylor: Yes. They have mediation centers. You show up there and you sit down with all the folks and it's just like a pretrial conference, except you've got decision-makers sitting there that can help you out.