2017
DS
news

BREAKING DOWN HOUSING

THE 2017 INDUSTRY OUTLOOK

A sector-by-sector look at the housing industry from the perspective of those who know it best. We approached a distinguished panel of the leaders in their respective fields and asked a simple question: "What are you forecasting for your line of business in the coming year, and what are the factors that are going to shape your industry?"

Commentary by:

Bill Green, Kurt Carlton , Greg Rand, Charles Tassell, Brian Cullen, Sam Tucci, Alan Jaffa, Bryan Lysikowski, Michael Harris, Tami Rund, Tom O'Grady, Brian Mingham, Shawn Miller, Min Lee Alexander, Dayna Silver, Rick Sharga, Maria Moskver, Joe Pensabene, Jesse Taylor, Lindsay Carrington, and Edmond Buckley.

INVESTMENT

BILL GREEN

CEO, LendingOne

As we look towards 2017, the real estate market is shifting for fix and flip and rental investors. In 2016, fix and flippers saw great opportunity in purchasing distressed properties, rehabbing, and selling them for a profit. The number of fix and flips in 2016 to date have increased from where they were this time last year.

However, the market is changing, and the inventory of distressed properties available has started decreasing, causing the value of these homes to steadily rise. Newer investors may have a tougher time creating value in this shrinking market, but the more experienced investors will have better chances of profiting off these more expensive investments. They have a greater network of contacts to help locate profitable deals in a short-supply market, and typically they will have built up more wealth to use towards purchasing these properties with higher price tags.

For buy and hold investors, the rental market began to blossom into areas of great profitability during this past year. Rents have increased due to the demand for single-family rentals rising, and the national vacancy rate is only 7 percent. The tremendous boom the rental market has showcased is anticipated to continue into 2017.

One reason for this could be the change in interest rates, which are expected to rise in the upcoming year. This will prompt buyers to rent instead, thereby decreasing the number of purchases and refinances. The millennials who are dealing with college debt can't afford to buy, so they need to rent. Additionally, the effects from the last housing crash are still felt by people not able to qualify for mortgages as easily as before, so they turn to renting. The more experienced rental investors will recognize these changes and understand how to capitalize on this growing market of opportunities.

For private lenders, we anticipate more borrowers will seek financing to adapt to these changing market conditions so they can remain profitable. We anticipate the shift to be from the smaller "mom and pop" type investors to more experienced ones. Even if the rates were to rise, experienced borrowers who still utilize debt will only see marginal impacts to their home sales and levels of profitability in 2017.

EXPERT OPINION

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>
> –BILL GREEN

INVESTMENT

KURT CARLTON

Founder, New Western Acquisitions

In the years following the 2008 Recession, the recovery of the market has prompted institutional investors to emerge as catalysts for market growth. The notable impact and efficiency of investment institutions lead us to believe they have tapped into what is proving to be an increasingly lucrative asset: The single-family rental home.

The rental market has rebounded in a big way since the Recession, and the purchase, renovation, and leasing of property to meet existing demand has been beneficial. The U.S. Census Bureau documented a renter increase by 9 million households between 2005 and 2015—an unprecedented rise. Without an adequate supply, this demand continues to surge, and resulting market predictions anticipate the 2010s to make history as the strongest decade of renter growth ever recorded.

The largest investment institutions, such as Blackstone's Invitation Homes and American Homes 4 Rent, control a significant amount of financial assets in the United States and, naturally, have market influence across the board. According to the American Housing Survey, the majority of rentals, upwards of 14 million or one-third of the entire U.S rental housing stock, are renter-occupied single-family properties. Institutional investors, however, remain a minority in the market and account for only 2.6 percent of all single-family home purchases.

EXPERT OPINION

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In many areas of the country, home values remain depressed and rental demand continues to rise. This growing imbalance of supply and demand resulted in a tilted market with little options for consumers. Such circumstances translate into opportunity, and institutions began purchasing foreclosed, distressed properties around the country in the hopes of managing a turnkey investment. New Western has played a leading role in supplying property for such ventures by providing access to thousands of single-family properties to serve as rentals, and, therefore, enable investors to earn steady returns through passive, long-term renting strategies.

The careful procurement of properties is essential, and would altogether be impossible without knowledgeable and sophisticated acquisition firms. Taking into account the importance of property acquisitions in a challenging rental market, we have fixed our eyes upon paving the way toward market growth. We work hard to stand out within the realm of real estate acquisitions, and through our development and application of patent-pending technology, resources, and user-friendly interfaces, we have done so.

At the core of our contribution to the future of real estate is our dedication to specialized data and cutting-edge technology. We are working with the current state of the rental market to provide homeowners and investors, alike, a viable option to succeed and benefit. The speed and simplicity of our resources and the proper-

ties we supply to investors have established our presence within the real estate market. Through our innovative contributions to technological resources, we hope to encourage investors to take advantage of rental demands, and, thereby, foster their success in this ever-changing market.

INVESTMENT

GREG RAND

CEO, OwnAmerica

In 2017 it will become clear to anyone paying attention that SFR is a new industry, separate from the homeownership industry underpinned by the MLS, and separate from the commercial real estate business. Something new, despite being something old.

This sector is massive, no matter how you measure it. NAR states that is represents an average of 22 percent of all home sales annually. The national housing database that has been indexed and measured by the nation's major title insurance companies counts it at over 16,000,000 units. Apply that to the Census, and you find that SFR shelters more than 12 percent of US households.

Despite the fact that SFR has been in place since the founding of our country, the industry is still in its formative stages. Innovations in technology, data, and professional management systems that were hastily built for the institutional trend have laid the groundwork for a "new" real estate industry.

SFR as a product: A major breakthrough in understanding SFR came in 2016 when research revealed an uncanny balance between demand and supply. It is now understood that of the roughly 1,000,000 investor home purchases every year, where 800,000 are bought to hold, the vast majority are purchases of vacant homes that are turned into rentals. It has also been estimated that of the 16,000,000 rental homes in the U.S., about 5 percent are assumed to turn over every year. Those rental homes have typically been vacated in order to be sold. So, something like 800,000 landlords vacate rentals each year to sell them, and 800,000 investors buy vacant homes each year and rent them out. Almost a perfect match, if someone would just match them up.

SFR as a technology business: A few platforms were introduced in 2015 and 2016. Some were evolutions of existing business. A handful of new brands entered the space, and raised venture capital or were acquired with fantastic valuation, pre-launch. 2017 will be the year that they will prove their models, move product, sell real estate, close loans and help investors deploy capital. It will be interesting to see who pulls ahead and who feels the pain of that transition from PowerPoint deck to reality.

2017 is the year where the world will become aware that the best way to invest in single family rentals is to buy a fully occupied, performing rental property. Sellers win by maximizing income up to the closing. Buyers win by reducing risk and generating yield from day one. Tenants win because they don't get kicked out. It's the task of this new industry to form an efficient market to match this reality. It's going to be interesting and profitable.

EXPERT OPINION

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—GREG RAND

INVESTMENT

CHARLES TASSELL

COO, National Real Estate Investors Association

Fortunes are made and lost in the midst of uncertainty. Uncertain people freeze precisely when they should move. With the aftermath of the U.S. elections still ringing in our ears, every sector and strata of society includes people who will hesitate when choosing a path forward. The regulatory climate will relax—but how much, and how quickly?

EXPERT OPINION

"Assuming decent GDP growth, the Fed will increase rates, which will have mixed effects for investors."

—CHARLES TASSELL

The Congressional Budget Office previously forecast GDP would grow 4-4.5 percent from 2011-2014, but governmental regulations stunted this growth.

Assuming decent GDP growth, the Fed will increase rates, which will have mixed effects for investors. Domestically, the price of housing will go up, causing a slow-down in some markets while pushing longer-term homeowners' values to rise above the water line. This is good news for the 12 percent of homeowners currently underwater. This rise will release some of those owners with pent up demand to sell. Depending on their state's economy, homeowners may increase investment in their own property or move to a state with an even hotter market for better prospects.

The international effect of higher interest rates will be more subtle. Increasing returns will attract foreign investors, especially those struggling with negative interest rates or uncertain leadership. This will be important for Eastern investors, such as China, seeking safe harbor from inflated markets now showing fracture lines. The billions of dollars flowing into U.S. markets will most significantly affect the transaction levels, cap rates, and values of commercial properties. Some of those funds are already pushing into the residential markets and may cause a bubble in cities where development outpaces growth. The international effect will also energize the stock market, pushing a dramatic but unsubstantiated increase.

Immigration, a hotly contested issue, makes growth factors important to consider in pric-

ing the housing market. The upward mobility pressure applied by immigrants on housing may slacken during the political upheaval. The longer the issue remains on the front burner without a solution, the more this pressure will slacken.

While more economists are predicting a slow-down, domestic energy independence will help offset consumer fears, and variations in the spectrum of housing bubbles across the country by state and community will offer opportunities for flexible companies to take advantage of available pools of funds, albeit at slightly higher prices, than traditional institutional funds. The heat in the market should also marginalize foreclosure purchase opportunities, but not as much as in 2006. Should excess marginalization occur, however, the mini-bubbles in some states will have merged across state lines, so beware.

DS NEWS **TITLE**

BRIAN CULLEN

CEO, SingleSource

At SingleSource, we see the Title and Settlement market staying at levels that will be similar to those we processed in 2016. If there is an increase, it will most likely be under 5 percent. We expect the current business dynamic to remain stable and, therefore, do not expect to see a change. As rates start to rise, the purchase market will continue to outpace the refinance market. Even with home appreciation starting to slow, we still believe the Home Equity market will continue to remain very active.

One of the areas of focus in title and settlement for 2017 will be the increased presence of technology in our day to day operations. This will be especially true for firms that operate in multiple states or regions. By utilizing the current technology that is available, such as a mobile closing application, national service providers, such as SingleSource, can present their clients with better communication and additional transparency. This has had the positive impact of expanding service levels and increasing quality. By utilizing our SingleSource Closing App, our settlement agents can keep our clients updated in real-time by providing information such as when they arrive at the closing site and when they complete the transaction. Our settlement agents also utilize the app to expedite the shipping of documents back to our office. This type of technology can also assist our client relations team, as it notifies them of the status of the closing. Providing them with more timely information makes them more productive overall. In addition, they can better help a Notary or Attorney if a situation should arise where changes need to be made.

Other industry issues from 2016, like the impact of TRID, have become more normalized in title and settlement, especially when compared to this time last year. Without a doubt, days to close have increased on conventional purchases, but the industry as a whole has adjusted. We have started to see these impacts reflected in purchase agreements that are submitted by our Realtors. Another factor facing our title and settlement business will be the unknown impacts of a changing environment in Washington. How will the recent election impact us all in regards to legislative and regulatory issues? This measurement is harder to project, but even in this changing landscape, we expect to continue to see steady volume in the document management and loan modification markets.

DS NEWS **EXPERT OPINION**

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–BRIAN CULLEN

DS NEWS **PROPERTY PRESERVATION**

SAM TUCCI

VP Business Operations, U.S. Best Repair Service

We are stretching into the third-longest recovery without a recession since the Great Depression. Although the default rate has dropped to the lowest level since 2007, many economists point to indicators of a recession by 2018, perhaps as early as 2017. In addition to threats of another recession, loan modification rate hikes are entering their third and fourth years, adding greater financial stress to nearly 750,000 homeowners. It's likely that modification resets and defaults will increase into 2017.

Whichever the economic outcome, US Best Repairs, and the industry, will continue to move towards mobile technology for greater risk management, real-time and verifiable data, and streamlined transactions. Innovative technology has removed a lot of the agony of waiting for results to return from the field, and mobile devices have improved communications, efficiency, and transparency. Mobile technology also has the advantage of showing us which person

DS NEWS **EXPERT OPINION**

"We don't know what is going to happen to the CFPB in 2017, but we do know that compliance will always be a huge part of our business."

–SAM TUCCI

completed the work in the field, the date and time of service, and geotags to match and verify locations.

We've seen a lot of consolidation in our industry over the past few years, and that is a trend that is likely to continue. If you are going to survive in the field services industry, your business will have to make the transformation to mobile solutions. Much of the consolidation has to do with which companies are willing to keep up with the high costs of compliance. These costs have pushed many companies either out of the field services industry or out of business. We don't know what is going to happen to the CFPB in 2017, but we do know that compliance will always be a huge part of our business.

An "all in" dedication to quality assurance and controls will also continue to shape our business. We are constantly checking to make sure that we are doing the right thing. Have we followed the rules? Have we verified property condition, occupancy, status? Have we verified our verification? Getting the job done fast is important. Getting the job done right the first time is more important.

There are a lot of unknowns, but one thing is for sure. We are looking forward to a growth-filled 2017 in an ever changing and advancing industry.

PROPERTY PRESERVATION

ALAN JAFFA

CEO, Safeguard Properties

The future of property preservation in the mortgage servicing industry is bright as preservation companies, servicers, and investors collaborate to enhance preservation efforts to continue to reduce blight in communities across the country. The need for this partnership and aligning guidelines and best practices is stronger than ever to manage increasing oversight and legislation. The industry has come together to implement new standards of preservation and develop a system of checks and balances through technological innovation.

One of the main goals of property preservation is to ensure that neighborhoods are not overcome by blighted abandoned and vacant properties, in addition to protecting the properties themselves. Because those properties that are abandoned early in default can deteriorate over the course of the long foreclosure process, investors and servicers have recognized the need for extended preservation efforts for pre-sale properties that mirror those in REO (real-estate owned).

EXPERT OPINION

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One example of this is the recent announcement from Fannie Mae at the 2016 National Property Preservation Conference on November 3 that it now requires clear-boarding securing products over plywood window coverings for its pre-sale properties. Prior to this announcement, Fannie Mae only required clear-boarding for those properties post-sale. It is nearly impossible to know the difference between a property pre- or post-sale based on appearance; therefore, it is imperative that all vacant and abandoned properties are maintained to the REO standard and not stand out as a target for vandalism and crime.

Additionally, technology–specifically mobile offerings–has made property preservation work more efficient and reliable over the past few years. There have been several major advances in the mobile platform to enhance location validation, and to avoid costly mistakes, and guided or "smart" scripts for contractors to follow in the field to assure a comprehensive reporting of a property's condition is provided. The goal is to create a real-time two-way conversation between property preservation companies and their contractors utilizing the latest advances in geo-location technology, GPS, and smart scripting. Smart scripting is no longer a back-office function for property preservation contractors in the field. They now are able to capture the property condition in real-time on-site and communicate it back to the preservation company within minutes.

Through Safeguard's own beta testing, we have learned that video technology also is going to be the future for documenting property condition and "telling the story of a property," and we also appreciate that the video app and corresponding business process to review the results must be carefully designed for simplicity and speed. The result for servicers is going to be a game-changer in terms of quality and the ability to effectively communicate property condition.

PROPERTY PRESERVATION

BRYAN LYSIKOWSKI

CEO, ZVN Properties

I think as Americans we can breathe again now that the presidential election is out of our way; however, this brings into our future some unchartered ways with both the House and Senate as well as the president led by the Republican party. This is something that has not happened in our country since the 1920s. I feel that this is something that will certainly affect the mortgage industry and will have a trickle-down effect on the field services side. I think you will see some regulations loosen up a little on the lending side and see interest rates rise for the first time since the housing crisis. What we will initially before things change for the better is what I would like

EXPERT OPINION

> "As the economy continues to recover and regulations loosen up, so will the ability to obtain a home loan."
>
> –BRYAN LYSIKOWSKI

to call a "ghost foreclosure." This is a term I am giving to a borrower that is close to default but the low interest rates have kept the borrower in their homes and now they have an ARM loan set to reset and a refinance is needed. In the case of an increased interest rate the only choice for this borrower might be to default. This trend, however, is notable for our industry but will be short lived. As the economy continues to recover and regulations loosen up, so will the ability to obtain a home loan. As this begins to happen I feel you will also see an increase in default activity. I think the other major factor that is already occurring and will continue to occur in the field services industry is that as the volumes continue to constrict from their current crisis level the GSEs and servicers will become much more organized within their own shops. They will start to add smaller vendors into their vendor networks. This trend is going to continue to increase and it will benefit the smaller to mid-size field service firms. As this tactic continues there will be a changing of the guard within the field service industry which will put the dollars closer to the asset itself and put more money in the pocket of the vendor doing the work on the asset. This will lead to FHA properties conveying faster and REP assets selling faster as they are in a better marketable condition.

TECHNOLOGY DEVELOPMENT

MICHAEL HARRIS

President, Exceleras

For the last few years, technology development has been focused on regulatory compliance almost exclusively and to the detriment of profit-generating functionality and the user experience. Most recently it's been about the TILA/RESPA Integrated Disclosure on the origination side, while servicers have struggled to manage consumer complaint resolution, effective default management and REO disposition.

With technology development focused mostly on keeping companies safe from non-compliance, little effort has been expended on creating new tools that will increase the profitability of the companies operating here.

A new administration in Washington may have an impact, but it's too early to say with any certainty. In any event, the Consumer Financial Protection Bureau is not likely to go away and the government's general focus on consumer protection will not change.

EXPERT OPINION

"As we move into 2017, watch for an increase in interesting software tools that will meet the needs of a broader real estate and home finance market."

–MICHAEL HARRIS

For the most part, the software we have today is meeting the needs of today's mortgage loan servicers. In the future, we expect to see more functionality added that will allow the servicer to shift focus from compliance concerns to higher efficiencies, better customer experiences and more bottom line profit.

In addition to that, we see a huge underserved market in the real estate industry for technology that is easy to use and that can effectively connect various players, such as real estate investors, with the municipalities and community-based organizations that have properties to sell. Likewise, real estate agents are eager for opportunities to manage these assets, but need access to the right software and networks to get connected.

Many of these users are experienced in the real estate business, but less so when it comes to the use of information technology. The software we're working on today makes it easy for these users to get what they need out of their business software without forcing them to become experts in IT.

The other shift we're seeing and that we expect to see continue into 2017 is the fact that with the ability to more easily connect disparate software systems we're seeing a shift to consolidate functionality into a single user experience. People don't want to manage three different software solutions for real estate acquisition, rental and disposition. They want it all: workflow and associated data to be contained within the same platform.

Realizing this, we're seeing more companies work together to offer their shared clients better solutions that are easier to use, more secure in the way they handle data and more capable of meeting all of the needs in their businesses.

As we move into 2017, watch for an increase in interesting software tools that will meet the needs of a broader real estate and home finance market. These tools will likely go well beyond compliance and finally give businesses the power technology has long promised.

VALUATION

TAMI RUND

President, Asset Valuation & Marketing

There are a number of factors which have an impact on our forecast of trends in the residential valuation space. One of the biggest drivers in the front end origination space is interest rates. There has historically been a strong correlation between interest rates and residential 1st lien mortgage origination. In fact, the FED estimates that, for every 1 percent increase in the overall first mortgage interest rate on a 30 year fixed rate mortgage, first mortgage demand is reduced by between 2 and 3 percent (FED working papers, 2014). In light of that, we would expect first mortgage demand to drop some 3-5 percent over the next year as the FED continues to gently push the fed funds rate upward.

Similarly, in the default servicing space, we have seen a sharp decline in the first mortgage delinquency rate since roughly Q2 2012. In fact, according to most indices, we are approaching default rates experienced prior to the meltdown. While we expect a continuing gradual decline in the overall volume of NP assets over the next few years, we have seen the delinquency rate start to stabilize and we expect that trend to continue.

The residential valuation space is, generally speaking, a bifurcated market. We generally make the distinction between front end mortgage origination valuation and default/portfolio servicing valuation. In light of the fact that AssetVal has exposure in both spaces, we have to look at the leading indicators for both spaces in order to appropriately allocate resources. With respect to the front end origination space, as

EXPERT OPINION

"With respect to the default/portfolio space, while we expect to continue to see a gradual decline in the overall volume of assets, we have seen a strong uptick in the volume of portfolio trades over the past two years and expect that trend to continue, ensuring a strong demand for alternative valuation products over the next year plus."

–TAMI RUND

has already been highlighted—we do expect a softening of the overall market, but would note that specific micro-markets are still witnessing very strong residential housing growth and we expect those markets to remain strong over the next year (e.g. Dallas, Texas; Denver, Colorado; and the Pacific Northwest). This requires us to allocate adequate resources to ensure appropriate coverage for those markets, all while ensuring continuity in the markets that are starting to soften a bit.

With respect to the default/portfolio space, while we expect to continue to see a gradual decline in the overall volume of assets, we have seen a strong uptick in the volume of portfolio trades over the past two years and expect that trend to continue, ensuring a strong demand for alternative valuation products over the next year plus. In addition, as the NP assets work their way through the different stages of default, we expect to see an increase in valuation services demand for disposition decisioning.

All this to say that our forecast for the next year (and longer) remains very optimistic, both in the front end origination space as well as the default/portfolio space.

VALUATION

TOM O'GRADY

CEO, Pro Teck Valuation Services

Forecasting the 2017 housing market would have been easier before the presidential election. Most pundits believed that Hillary Clinton was going to win, and any changes to the regulatory or financial markets would have been minor shifts based on similar ideology. Not so with Donald Trump's victory.

Trump's transition team website has harsh words for Dodd-Frank, and states changes will be made to make it easier for banks to loan. How this is done and what specific changes are made is still very much a mystery.

If we assume no drastic changes in the short-term, I'd call 2017 the year we get "back to supply and demand fundamentals." Lower foreclosures, increasing new home construction and loosening of credit policy should all help improve the health of the 2017 housing market.

Foreclosed properties sell at a discount; have too many and they impact the entire market by slowing price appreciation. Today, 21.6 percent of the top metros in the country have foreclosure as a percentage of market sales over 10 percent, down from 35.6 percent 12 months ago. We believe this reduction will continue in 2017, leading to more market-based selling.

Inventory is tight because new construction came to a standstill after the housing crash, leaving a four year gap in the creation of new housing. As more new supply becomes available, months of remaining inventory should rebound to historic norms.

For interest rates, most anticipate a modest increase and further actions to make credit available to more people–all these factors combined should help the nation's real estate market to return to supply and demand market fundamentals, with fewer foreclosures and more new home sales.

Finally, there are some concerned that a few markets like San Francisco are approaching or passing bubble peak. We believe these values are based on strong market fundamentals. Today's access to credit and underwriting is much more conservative than the loose credit and subprime lending that led to the bubble and housing crisis of the prior decade.

EXPERT OPINION

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VALUATION

BRIAN MINGHAM

President, National Real Estate Solutions

Since 2008 our economy has struggled with employment and income gains, and both are currently starting to grow slowly. With these items in conjunction with the housing crisis our recovery has been very slow and prolonged, and we will still feel the effects into 2017. In the heart of the crisis, property values were crushed and familys lost enormous wealth and more importantly their homes and their community. Property values have come back most of the way in many part of our country because of historic low rates that help affordability and many investors, both small and large, taking this inventory and making it safe and livable housing across the U.S.

With the 2016 election behind us, the President Elect, Donald Trump, is considered to be a pro-banking president, and some of the laws passed during the past few years like Dodd-Frank and the Affordable Care Act will most likely be gutted and will allow banks to begin taking more risk with less regulation and

> **EXPERT OPINION**
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> "In 2017 we should see continued price appreciation. We will continue to see historic low inventory levels of SFR properties."
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> –BRIAN MINGHAM

with the ACA being replaced are both positive aspects for the consumers as it relates to the mortgage/real estate markets. Dodd-Frank will let banks create new loan products to get more consumers back into homes without the insane regulatory environment we see today. The ACA being redesigned and lowering the costs that have spiraled out of control in the past two years will improve consumer's cash flow.

In 2017 we should see continued price appreciation. We will continue to see historic low inventory levels of SFR properties. The start of interest rate increases which should drive some fist time buyers to get off the fence and buy. Valuations will continue to be challenged in many markets where investors have been in the "fix and flip" space because of the length of time held along with some of the larger investors having the ability to move markets quickly when they begin to buy and sell again.

ASSET DISPOSITION

SHAWN MILLER

Director of Business Development, Hudson & Marshall

The residential mortgage default space has evolved and diversified in 2016. These changes have been driven by many variables, but the two core fundamentals have been basic supply and demand economics. The U.S. and International market demand continues to remain strong for U.S. residential property and continues to absorb much of the residential foreclosure supply at strong returns. The ownership demographic of residential loans and REO has shifted with the increased demand from sellers and buyers of non-performing and re-performing loan pools. This ownership shift, coupled with strong market demand, has driven different strategies to optimize returns for the portfolio.

The growth and value-add of utilizing third-party auction companies for foreclosure auctions has allowed servicers to increase third-party sale conversions while yielding strong returns. By engaging established and experienced real estate auction companies, foreclosure sales benefit from a significantly larger and more robust buyer pool versus the traditional foreclosure sale process. This increased demand, bundled with the efficiencies and auction experience supplied by a third-party auction provider, drives strong results. It has proven to be an effective disposition strategy. The updates to FHA's Claims without Conveyance of Title program, and similar program adoptions by several other government guaranteed loan programs, have validated the value of engaging third-party auction companies. As REO supply stabilizes, auction companies are educating the investor demographic about foreclosure auction opportunities and the value-add of expanding their acquisition strategy.

As it relates to REO dispositions, there has been a tremendous shift in methodology and strategy to maximize recovery for each property. Historically, REO dispositions were divided between conventional and alternative strategies. Conventional would be the most traditional approach of engaging the most qualified listing broker to market and sell the asset through the traditional channels including—but not limited to—the multiple listing service, signage, broker networking and various marketing mediums. Alternative would include donations, bulk/pool and auction. With more stabilized REO supply levels and healthy market demand, many REO sellers are leveraging both conventional and auction strategies simultaneously. By taking a multi-channel approach, sellers benefit from the value-add of both strategies and two very large, expansive buyer pools. This approach has yielded an increase in overall execution, cycle-times, and offer activity—especially within markets benefiting from strong price appreciation. By immediately engaging a multi-channel disposition approach at REO intake, sellers will receive a direct pulse on market demand, pricing generated through a transparent offer submission process and benefit from a date-certain for sale. At the conclusion of the multi-channel marketing program, the ownership will have all the information to make an educated business decision to sell the asset in its current condition, continue the eviction process if applicable or choose to create additional value through a repair strategy. If a repair strategy is elected, the multi-channel disposition approach is then engaged at completion to ensure the property is exposed to all buyer demographics and yields the most return.

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There is a different approach for every seller to optimize the return of their foreclosure and REO portfolios based upon numerous factors and goals. With the evolution of the conventional brokerage and auction strategies, coupled with overall market conditions, sellers have several powerful options to leverage multiple disposition channels or the option to leverage all disposition strategies simultaneously.

ASSET DISPOSITION

MIN LEE ALEXANDER

SVP Real Estate Services, Altisource

To be successful in today's mortgage servicing environment, banks and financial institutions must adapt their late-stage default and REO asset disposition strategies for increasing compliance requirements, increasing holding costs, and decreasing foreclosure rates. In short, they must be able to do much more with much less.

This requirement presents a new challenge for most banks. How can a business maintain fully compliant, consumer-centric, and sustainable operations while managing declining portfolios? Without heavy investment in new technology and service team infrastructure, most banks will not be able to achieve this feat

EXPERT OPINION

"Our industry has evolved at such a fast pace, successful asset managers cannot operate in their business as usual mode from the past."

–MIN LEE ALEXANDER

alone. Many banks are turning to asset management providers with existing scaled operations who have demonstrated deep-rooted knowledge in compliance, marketing, and asset disposition.

Here are the three key requirements for an effective asset management provider:

- **Robust Compliance and Quality Assurance Programs:** Sustainable compliance and quality assurance programs are not about "checking the box." An effective compliance and quality assurance framework requires a portfolio of preventative controls focused on leading indicators throughout the asset management lifecycle to identify possible points of failure before failures occur. Operational discipline to maintain consistent review, monitor accountability and develop leading indicator reporting will continue to differentiate good asset managers from the rest of the pack.
- **Comprehensive Asset Management Programs:** For banks, integration costs can be high, approval processes can be lengthy and late-stage default and REO volumes are low. Effective asset managers demonstrate expertise that spans multiple services, including short sale, deed-in-lieu, foreclosure auction, CWCOT second chance auction and REO disposition to simplify processes and streamline vendor accountability. A good asset manager can decrease stress and non-value added work for the client team across multiple business processes.
- **Technology-enabled and Transparent Operations:** The complexity of making the right decision at the right time for any given asset has increased significantly. For disposition strategies, one size will not fit all. Rather, the most effective asset managers leverage decision trees and logic-based frameworks programmed directly into their workflow. Variables such as emerging regulations, state requirements, local requirements, sales seasonality and asset-level condition require automated controls to ensure consistent application of client rulesets. Banks must have transparency into an asset manager's operations through clear frameworks and analytical reporting (not just data).

Our industry has evolved at such a fast pace, successful asset managers cannot operate in their business as usual mode from the past. Driven by compliance and the need to mitigate reputational and financial risks, the mental model has shifted from one prioritizing scale and profit to one prioritizing compliance, reputation and consumer-focused solutions.

As we look ahead to the new year, banks and financial institutions will continue to be more selective about the vendors they partner with for asset disposition strategies. The mortgage industry has evolved dramatically over the past few years, and those most adept at meeting new market demands will thrive moving forward.

COMPLIANCE

DAYNA SILVER

Director of Operations, Mortgage Quality Management and Research

Third party oversight of vendors is not new, but it has quickly become a key focus for banks, independent mortgage bankers, and vendors. Long established requirements are being enforced and there is increased scrutiny by the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and other regulating authorities. Regulators have made it clear that it is no longer enough to have good working relationships with vendors; organizations must assess several critical areas and key controls such as third party networks, business operations, and financial processes, in order to mitigate statutory or regulatory violations and consumer harm.

While obtaining a business license, validating insurance, and completing a business background check may have been sufficient in the past, in 2017 vendors will continue to be vetted, but will be required to provide thorough documentation and proof of controls for managing regulatory compliance and consumer protection. This shift in vendor due diligence has required vendors, such as Mortgage Quality Management and Research, LLC (MQMR), to invest in additional resources and infrastructure to meet this increasing demand on its clients. Our organization has established an internal team to manage the growing volume of due diligence requests and onsite audits, as well as requiring our own vendors to comply with the same standards for fourth party vendor management.

For years regulators provided lenders with some leniency with regard to vendor management responsibilities recognizing the stress lenders were under to comply with the Ability to Repay (ATR) and Qualified Mortgage (QM) rule, Servicing Standards and TRID. Now that ATR/QM and TRID are behind us, organizations must focus their efforts on establishing and enhancing their vendor management oversight. The CFPB has issued warning notices at multiple conferences and most recently noted in its Summer 2016 Supervisory Highlights that examiners found several institutions had weak compliance management systems and warned lenders that they must enhance/strengthen their service provider oversight. In addition, a prominent bank and mortgage lender was fined $10 million dollars for ineffective monitoring and training pertaining to a vendor who enrolled

EXPERT OPINION

"Outsourcing has provided an opportunity to leverage vendor expertise while establishing scale at reduced cost, but without effective oversight, organizations are at risk of non-compliance, and premium costs to the business."

–DAYNA SILVER

customers into overdraft protection programs without their consent.

Outsourcing has provided an opportunity to leverage vendor expertise while establishing scale at reduced cost, but without effective oversight, organizations are at risk of noncompliance, and premium costs to the business. Furthermore, third party vendors that are proactive in implementing vendor management best practices will ultimately have a competitive edge when retaining and cultivating new business.

ASSET DISPOSITION

RICK SHARGA

Chief Marketing Officer, Ten-X the parent company of Auction.com

I think there are a number of trends that will shape asset disposition in the near future.

First, we're already seeing a much greater emphasis on speed. Lenders and servicers have learned over the past few years that the earlier they can move an asset in the process, the better off they'll be. We'll probably continue to see assets moved earlier and earlier: sales of non-performing loans; properties priced for sale at courthouse foreclosure auctions; and REO assets moved immediately after the foreclosure sale instead of the more traditional process of foreclosing, evicting, repairing and then re-marketing the properties. There are benefits for everyone involved in the transaction–servicers see a dramatic reduction in carrying costs and often sell at a higher price than if they'd held the property for the typical eight-12 months, investors get the properties before they've deteriorated even further, and the neighborhood benefits from the property being brought back to marketable condition.

Second is the probability that more and more asset disposition will take place online. This expands the pool of potential buyers from a local market to a global market. NAR estimates that over $102 billion in foreign capital flowed into the U.S. residential real estate market over the past 12 months, and a high percentage of that money was spent on investment properties. As international markets have become more volatile, more investors view U.S. real estate as a safe haven for their capital, and distressed assets can be especially interesting–as a data point to support this, our Auction.com site has been used by buyers from over 100 countries.

Third is an increased reliance on technology. Technology tools will drive asset marketing to a much higher level of sophistication, enabling sellers to reach exactly the right kinds of buyers (investors vs. first-time homebuyers, for instance) with exactly the right kinds of properties. It also entails an accelerated use of online and mobile solutions to enable these investors to find the assets along with the information they need to make an informed purchase decision, all in one easy-to-use interface, and then be able to execute the buy from wherever they are on whatever kind of device they want to use–desktop, laptop, tablet or smartphone. And these customer-facing technologies will ultimately be integrated with the back-end systems used by servicers and asset management companies to deliver a more efficient, cost-effective experience.

EXPERT OPINION

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COMPLIANCE

MARIA MOSKVER

General Counsel & Enterprise Compliance Officer, LenderLive

When it comes to compliance, things are likely to change after January 20. Because President-Elect Donald Trump has publicly called for the dismantling of Dodd-Frank, those of us in the mortgage industry—along with a variety of other consumer finance industries—are looking at a moratorium and then a loosening of regulations.

At the same time, look for state regulators—such as attorneys general—to pursue an aggressive regulatory agenda, filling gaps that may be created at the federal level. Loss mitigation and the Servicemembers Civil Relief Act (SCRA) will continue to be areas of focus for regulators.

We anticipate, at the very least, changes to the structure of the CFPB. We will probably see a commission take the place of the Bureau's present configuration with an autonomous regulator at the top, especially following the federal appeals court decision in favor of PHH Corp. in October which found that structure to be unconstitutional.

It seems likely that Trump's administration will also work on constricting the collection of data such as consumer complaints. Compared to dismantling Dodd-Frank, that would be a relatively easy item to change.

Overall, the changes will be most beneficial to small community banks, as the regulations aimed at large financial institutions will probably see less of an overhaul.

The cost of in-house compliance for lenders will only increase. Installing the solutions, managing the information and then, eventually, looking to optimize—all while running the day-to-day business—is a process that will take months and possibly years to get done correctly and efficiently.

The SCRA is another set of regulatory challenges that servicers should expect to remain in place, as the Department of Justice is already pursuing enforcement of the Act.

The CFPB may, in fact, change its organizational structure, but between Dodd-Frank, TRID, and impending HMDA changes,

there is still a significant amount of compliance required.

It also remains to be seen how quickly the new administration will be able to implement changes to the federal regulatory structure. So, while 2018 and beyond may look very different for servicers, at least part of the next year will bring more scrutiny and more fines, even as the incoming leaders begin to chip away at the system created by Dodd-Frank.

Don't expect total deregulation, in other words. Expect a phased relaxation of federal regulations beginning in 2017.

SERVICING

JOE PENSABENE

President & CEO, Selene Finance

For years, our industry has felt the reverberation of the mortgage crisis and economic downturn and 2017 will not be without its challenges. The servicing sector, in particular, continues to navigate an ever-changing environment of regulatory scrutiny, shifting participants, and rate sensitivity. With the election behind us, it appears there may be an effort by the new administration to repeal financial regulations imposed under Dodd-Frank. Whether this will rise to the top of an ambitious agenda in 2017 is yet to be seen but would clearly affect the landscape.

Servicing costs have risen exponentially over the last several years as a result of regulatory changes. This ongoing scrutiny requires servicers to bolster processes, quality control and customer-facing practices to remain compliant. While some of these changes have improved operations, the cost has been crippling and servicing income has not increased to offset these expenses–notably, GSEs still pay the same rates.

In response to this, we've seen many servicers decrease capacity or drop out of servicing altogether. We can expect to see this trend continue in 2017. This shifting creates a lack of competent capacity, and specifically a lack of capacity at servicers with experience handling borrowers in distress. A spike in rates or a drop in the economy would have a heavy impact on the capacity at servicers with FHA/VA experience.

It's also worth noting that there is a general perception that rising defaults are behind us, but with many HAMP and other modification programs starting to season (some with step rates) a slight move in interest rates could cause another spike. Currently, there isn't much incentive for large originators to enhance special servicing capabilities, either in-house or through a partner. To them, even those with a compliant and efficient operation, a delinquent borrower represents too great a risk to their bottom line and brand. Should any large, nonbank servicers fail this problem becomes even greater.

EXPERT OPINION

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Banks and the GSEs have made progress on moving NPLs to specialty servicers capable of leaving no stone unturned and offering every creative solution available to borrowers. As this volume has crested, a larger RPL universe is being created and this positive momentum is put forth to help keep those borrowers remain current and permanently re-enter the performing loan space. As such, 2017 will be a market dominated by surviving servicers adept at providing creative solutions to borrowers in a compliant fashion, ready for the challenges ahead.

COMPLIANCE

JESSE TAYLOR

Client Solutions, Treliant Solutions

Fair lending compliance has been a hot topic and a focal point for financial institutions and industry regulators for some time. But 2017 will usher in a new level of scrutiny and those lenders that do not prioritize this key component of their compliance programs will find themselves facing dire consequences.

Lenders are fearful of becoming the next headline. Enforcement actions to date have demonstrated the consequences of non-compliance, but have provided limited insight into regulators' continually evolving methods for evaluating what is actually fair. The emphasis on fair business practices is also being applied across new perspectives. Compliance is no longer only about whether institutions are lending fairly, but are they servicing fairly? Marketing fairly? Addressing complaints fairly? The industry has been warned by regulators to "know your data" and must continue developing methods for internal analysis and ongoing monitoring to be fully armed against reproach.

But looming in the distance is another compliance behemoth: the new Home Mortgage Disclosure Act (HMDA) rule. On January 1, 2018, several major components of this updated regulation will go into effect, and they will shape the next year for any institution concerned with fair lending. Those who take comfort in this seemingly distant effective date and postpone critical implementation milestones will find themselves in a year-end whirlwind, desperately scrambling to foster the cross-department collaboration necessary for success. While many lenders have heeded the industry's warnings to start early, those that have succumbed to inertia will find their implementation process significantly more complex than anticipated.

Third-party providers will bear a heavy portion of this latest fair lending offensive. They will of course be responsible for creating the mechanisms necessary to capture the newly required information. The speed with which they offer the new and modified fields will determine how quickly institutions can begin testing that

EXPERT OPINION

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data's integrity. But as always the responsibility for compliance will rest squarely on the financial institution itself.

Lenders don't have the luxury of waiting to prepare until they have their updated loan origination system (LOS) or HMDA reporting tool in hand. Delaying procedural adjustments for the expanded data requirements will mean that when the system modifications do become available, the internal methods to collect, interpret, retain and transfer that data will be well behind. These lenders will be limited in taking advantage of their vendors' preparedness, and the integrity of their own data could be compromised when left untested in the rush to meet the compulsory deadline.

The evolution of fair lending regulation necessitates an evolution of the compliance process itself. A single department cannot prepare for these major changes in a siloed environment but must instead work hand in hand with all partners in the life cycle of a loan. Regulators today expect an institution-wide culture of compliance, believing that ultimately it will result in a better experience for the borrower from end to end.

TITLE & SETTLEMENT

LINDSAY CARRINGTON

Partner, Bell Carrington & Price, LLC

Title agents and settlement providers should expect and prepare for continual change in the industry in 2017, albeit not to the momentous change that the industry experienced in late 2015 and 2016. As with most things in business and life, change comes in forms both good and bad and opportunity lies in both.

Consumer protection regulations continue to dominate headlines and the industry should prepare for increased scrutiny. Articles suggest the court ruling in PHH Corp. v. CFPB dealt a death blow to the CFPB's regulatory reach are overblown. Regulators will continue to bring actions against lenders, servicers and originators for perceived violations of consumer protection laws. The fallout of these regulatory actions will trickle down to the vendors with increased audits and documentation. The resulting increased costs borne by title agents and settlement providers will produce consolidation of providers. Furthermore, regulatory actions should also lead lenders, servicers and originators to consolidate business with trusted vendors.

EXPERT OPINION

"The good news for title agents and settlement providers is that the housing market will continue a strong pace in 2017, fueled by low mortgage rates, the perceived safety of the U.S. real estate market and the entry of Generation Y into peak home-buying years."

–LINDSAY CARRINGTON

The good news for title agents and settlement providers is that the housing market will continue a strong pace in 2017, fueled by low mortgage rates, the perceived safety of the US real estate market and the entry of Generation Y into peak home-buying years. Most experts now believe interest rates will stay low until inflation expectations rise, which may not happen in 2017. Too, continued global economic unrest will not likely wane next year. These major factors, and other minor ones, ensure next year will produce a solid housing market.

Those in the industry that successfully navigate the increasing regulatory environment will be rewarded in a strong 2017 market. Title agents and settlement providers that demonstrate scalability and consistency will see increased market share in a year with a strong housing market and where lenders, servicers and originators reduce vendor risk by consolidating business with fewer, trusted vendors.

TECHNOLOGYT

EDMOND BUCKLEY

President, Aspen Grove Solutions

The overall level of mortgage delinquency has dropped over the last number of years and we see this trend continuing over the coming year. We are also predicting an ease in the level of regulation overhead. These two factors mean that the servicing supply chain, from the servicer to the field service professional, can dedicate more time to concentrate on service, quality, security and business intelligence, driven by and through technology from a business need perspective.

As an industry, we must always strive to enable technology solutions that embody service, security, quality and business intelligence. Business leaders in 2017 will focus on these business-critical aspects of technology solutions, as the time is ripe to make them a priority.

The "service" trend includes vendor management and compliance. Technology is leading the way in terms of providing solutions that enable vendor networks to be trained, to be compliant, and to deliver excellent service through integrated solutions that wrap data end-to- end in the supply chain. This service focus, by default, lends itself to better quality. However, if you add automated workflow and automated quality check weigh-stations along the service delivery highway, then excellent quality will be delivered through technology.

We cannot escape the security threats that are increasing daily. Technology solution providers have to ensure that they focus on this aspect of service delivery not just as an add-on but also as a core element of development and operations from end-to- end. Secure code reviews, firewall protection, and security certifications are all critical technology services. Additionally, we must also enable our clients and teams to identify threats and trends both internally and externally through our solutions and the data captured through our solutions.

Which leads us finally to data analytics and business intelligence, which make so much sense for business leaders. Creation and delivery of reporting solutions that enable business leaders to know, understand, and drill down into the data is a must-have and will form a critical part of what we do in 2017. It is not enough to provide and enable self-serve reporting; we have to combine that with our domain expertise to help our clients create value from the data, to easily spot trends, to highlight anomalies and to drive quality and service.

With current industry trends in mind, we think now is the time to focus on technology that helps provide business-critical solutions around service, security, quality and business intelligence.

EXPERT OPINION

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–EDMOND BUCKLEY