**7th Annual National P&P Conference**
**Washington, DC**
**November 14-16, 2010**

**State of the Industry Session Summary**
November 15, 2010

**Moderator**
Robert Klein, Safeguard Properties

**Panel**
Laurie Maggiano, U.S. Department of Treasury
Sharon Lundstrum, U.S. Department of Housing and Urban Development
Mike Frueh, U.S. Department of Veterans Affairs
Jay Ryan, Fannie Mae
Ed Delgado, Five Star Institute
Faith Schwartz, HOPE NOW
Steve O'Connor, Mortgage Bankers Association
Caroline Reaves, Mortgage Contracting Services

**Session Overview**
The State of the Industry session returned to this year's conference as an introductory platform that featured leaders within various sectors of the mortgage servicing industry whose insight has significantly influenced and guided the focus, national responses, and business activities for both their own institutions, as well as those of fellow colleagues. The perspectives and contributions of each panelist are solidly recognized and long-respected. Once again, this high-level, industry-wide discussion set the tone of the conference and laid the groundwork for the dialogue that was generated over the course of two days within an agenda that dissected the critical and timely issues impacting each sector.

The below discussion points drew upon a year of unprecedented challenges and collaboration; however, focus was directed to the ever-changing climate and conditions, issues that have and will continue to demonstrate the adaptive and responsive nature of the industry. The topics touched on current affairs, including, but not limited to, robo-signing and affidavits, modifications and moratoria, low-value asset disposition, and the negative attention and portrayal of servicers that is being aggressively promoted by the media.

**Robo-Signing**
In light of recent public attention and operational impacts of the programmatic activities undertaken by the industry, the topic of robo-signing, not surprisingly, earned a primary position on the agenda. Ed Delgado described robo-signing

"politics over process," as foreclosures were not the direct result of affidavit authorization errors. Sadly, mistakes return to haunt the offender and the industry will have no alternative but to deal with the related and unintended consequences. Delgado cautioned that public repercussions will not terminate with robo-signing, as scrutiny is highly likely to bleed into other banking areas and processes. Faith Schwartz affirmed that an extension of this close examination and rigidity has and will continue to include involvement by various oversight commissions, regulators, and Attorneys General. Delgado further stated that the resulting delays in foreclosure processes are unnecessary and regulators need to stop looking for ways to halt the system. By working with the industry, all parties can strive for an effective approach rather than introducing unneeded restrictions.

There has been a clear demonstration that the infusion and implementation of broader-based industry accountability is justified. The attention garnered from robo-signing, combined with other activities, has been magnified in the creation of a lack of trust for banks and a projection of blame for personal financial hardships, a self-damaging impact for the industry.

**Retaining Occupancy, Moratoria, and Loss Mitigation Efforts**

Retaining occupancy has been the most effective method for minimizing losses through damages, while also reducing neighborhood blight. Therefore, there has been an overall increase in loss mitigation activities, efforts that include enhanced and extensive outreach to struggling borrowers.

There are currently 3.2 million mortgagors within the United States who are at least 60 days past due on their loan payments. Borrower response rates to outreach are averaging a mere 20%-30%, a value influenced by factors such as diminishing equity and escalating unemployment numbers. The obstacles to make a modification permanent are prolific. Laurie Maggiano indicated that with HAMP designed to assist a specific faction of qualifying borrowers, creating 500,000 permanent modifications to date, servicers have notably "stepped up to the plate" to offer and provide additional proprietary options. This has created arrangements for a combined 1.5 million homeowners across the nation. The effectiveness of HAMP, which provided much needed standardization to procedures, is measured by a re-default rate that has dropped by 25%.

The VA maintains its fundamental advocacy role of supporting the modifications implemented by the department's servicers that will ultimately be successful for the borrower. This is approach is endorsed while alternative exit strategies are also reviewed and pursued when appropriate. Mike Frueh elaborated that once a property has been abandoned by the borrower, delays in the foreclosure process—a result of various moratoria—are counterproductive for servicers, investors, and communities.

Similarly, Fannie Mae endorses an approach that first includes the servicer running through the "cascade" of mitigation options. Jay Ryan confirmed that education and early intervention are critical when facilitating a work-out for a troubled borrower. A threshold of six months was referenced as being most effective for initiating the loss mitigation process. Borrowers with delinquencies exceeding six months have a higher risk of progressing into foreclosure. Like the VA, multiple exit strategies are being offered to retain occupancy, including deeds in lieu, deeds for lease, and short sales, which can also compliment Fannie Mae's rental program.

**Asset Disposition Strategies and Challenges**
**Short Sales, Low/No Value Properties, Charge-offs**
Short sales are gaining attention and consideration within the industry as a viable option for disposition. These are attractive for third party investors, as they offer a guaranteed revenue stream when they are occupied. The option doubles as a tool for retaining occupancy by allowing borrowers who wish to stay in their homes to do so under the new arrangement. Ryan explained that although the concept of short sales has value and good intentions, execution can be difficult due to the number of parties, lengthy timeframes, and the multiple steps that present multiple obstacles.

Location, asset value, maintenance costs, and the expenses associated with foreclosure proceedings significantly influence the disposition strategies that are chosen and implemented. Fannie Mae has and continues to work with non-profits and Neighborhood Stabilization Program grantees to move properties targeted for redevelopment. A partnership with the Cuyahoga County (OH) Land Bank has resulted in the transfer of 170 properties to date, and these relationships are expanding to additional areas and groups in the upcoming year. When demolishing the property is the most viable the outcome, $3,500 is given to the land bank to defray related costs. To provide another alternative to walking away from the property and to eliminate blight through the facilitation of neighborhood redevelopment strategies, Fannie Mae is also working with for-profit investors within the pilot cities of Chicago, Cleveland, and Detroit. As low value assets are returned to productive use, the establishment of these outlets for distressed properties creates opportunities for both servicers and local communities.

**Industry Challenges: Negative Media Portrayal of Servicers**
The industry has recently been dealt a handful of challenges that have been captured and magnified by the media and have resulted in a disparaging reputation for the industry. Regardless of the multiple accomplishments over the past year, these good deeds are quickly extinguished by negative press,

mounting financial and social ills from unemployment. A campaign to reverse these issues warrants educating the American public and legislators.

Caroline Reaves affirmed that the public is generally unaware of the tremendous costs expended by the industry to responsibly maintain and preserve vacant properties. A majority of properties are being properly serviced and abide with community standards; however, those that fall through the cracks or are the subject of erroneous actions create damaging negative coverage. The Mortgage Bankers Association will continue in 2011 with its agenda and strident focus to inform elected officials on the intricacies and impacts of state requirements, national policies, and viable regulatory alternatives. Steve O'Connor confirmed that educating policy makers of the activities, roles, and authorities by the industry is necessary to shift current public opinions.

Klein stated that the amount invested by the industry in 2010 to prevent neighborhood blight and protect collateral is anticipated to reach a staggering $8 billion, an expenditure that doubles that of 2009. This is no surprise to those who have witnessed the extent and scope of preservation services firsthand. The amount invested is not likely to decrease in 2011, thereby requiring attention and oversight within the industry. Sharon Lundstrum indicated that HUD will maintain its leadership position in strengthening mortgagee compliance, provide elements for the overall monitoring of activities and efficiency, offer system and procedural enhancements that will continue to reduce conveyance timelines, and introduce measures to better hold troubled borrowers accountable for their modification outcomes.