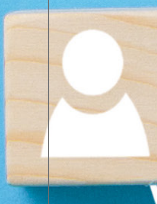
DS news **Feature**

By: ***David Wharton***



LINES OF COMMUNICATION

The executive team at Safeguard Properties discusses the critical nature of communication, and how the industry is managing the pandemic.

In 2020, our industry, our nation, and our world as a whole, found itself confronted with an unprecedented health crisis in the form of the COVID-19 pandemic. This year also marked the 30th anniversary of Safeguard Properties' work in the property preservation and field services sector. That would be an auspicious achievement under any circumstances, but this year has provided little time to celebrate. While those decades of experience spent developing and evolving a disaster response playbook no doubt served as a valuable foundation, both Safeguard and the industry as a whole have been forced to reexamine policies, adapt on a nearly daily basis, and navigate a crisis that has no clear ending point.

Looking back over those three decades and ahead to the challenging months to come, the Safeguard executive team recently spoke to *DS News* about key takeaways from the pandemic and what they're doing to prepare for an uncertain future.

DIGGING THROUGH THE NOISE

Terry Smith, CEO of Rushmore Loan Management Services (a client of Safeguard's), told *DS News*, "Natural disasters aren't going away. They can happen at any time, and you have to have a plan in place to be ready for the myriad of unknowns that come with these types of disasters."

While the company's extensive experience in natural disaster preparation and response may not have helped anticipate every aspect of this current health crisis, the Safeguard executive team told *DS News* that many lessons do apply.

"The most important thing is to stay nimble," said Joe Iafigliola, CFO. That nimbleness includes staying apprised of all relevant changes and updates from a federal on down to a community level and ensuring those updates are communicated effectively to the vendor network. "It's important that we track specific levels of federal disaster response and communication. Policies are not necessarily consistent at each level of government. We have to understand and act as policies change."

Iafigliola added that everyone has to recognize that "when you have a localized disaster, the people who do the work live in the impacted community. They, and their families, are often impacted as well." This means property preservation companies need to have contingency plans in place to bring in inspectors or contractors from neighboring states, counties, or cities while the locals are working to get back on their feet.

Michael Greenbaum, Safeguard's COO, agreed that communication is the backbone of any sort of disaster response, whether the root cause is a storm, a wildfire, or a flood.

"Everyone can see the news," Greenbaum

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—Michael Greenbaum, COO, Safeguard Properties

said. "They can read the local paper. But what they don't know is, physically, what is happening in these areas, down to an individual property level? What is happening at my property, as a servicer, as a bank?"

Smith noted how critical updates on topics such as FEMA Declarations can be—or even alerts about disasters with the potential to become an official FEMA Declaration.

"Those are extremely important to the clients," said **Tim Rath**, AVP of Business Development, "especially because we often have to sift through the FEMA website to navigate and find the correct information."

Greenbaum added that a service provider, such as Safeguard, must not only provide critical information regarding disasters, but it also has to analyze that data to provide real context to its clients. "Are we identifying trends? Are there multiple houses on the same street?" Greenbaum asked. In Safeguard's case, they utilize a visual overlay to denote trends and levels of severity, with red representing the most damaged or impacted properties.

Alan Jaffa, Safeguard's CEO, explained that in the instance of a disaster—as we spoke, he pointed out that Collier County, Florida, was at that moment fighting a series of dangerous wildfires—the company will automatically alert their clients about any parts of their portfolios that could be affected by the situation.

"Whether you're a client or not a client, we'll put you in the database and keep you informed," Greenbaum said. "But [for clients] we try to be very, very custom. You're going to get back specific, detailed information from a dedicated report, and then we're going to provide photos so they can see the extent of the damage."

Jaffa said the goal is to be providing the servicer or investor with updates before they even realize they need them.

"We are constantly grabbing that information for the industry," Jaffa added.

Safeguard's CIO, **George Mehok**, discussed how the company's use of geocoding and GPS-enabling each property in a customer's portfolio allows them to drill down into extremely small levels of detail that can provide crucial insights before, during, and after a crisis.

"When there's a fire, for example, we can determine which properties are potentially impacted, because we also bring in data from national sources and federal sources that we overlay. We can tell a client early on in a disaster how many properties in their delinquent portfolio are impacted, even before we dispatch the first inspector. Then they can assess what the overall potential situation is."

That information flow, however, is very much multidirectional. Some of the most important information a servicer needs may come not from a government agency, but rather from the "boots on the ground"—the contractor and vendor base. They can provide the local-level nitty-gritty, such as details about road flooding, that may be important but not provided from other sources.

"One big challenge is just staying organized," Greenbaum said. "We have to dig through the noise to get the right information, but we don't want to become a noisy source ourselves. We want the information we pass on to be clean."

"This is one big reason why we love to work with local vendors. They understand what's going on in their area, and they're more equipped at times to deal with cultural-type things that are happening in different communities. They're there—they know the community; the people in the community know them. Code officers are familiar with them. That's why it's a huge advantage for us to work with our local vendors."

The demographics of those impacted by natural disasters may shift in the years to come as well, as various factors hold the potential to reshape how and where Americans choose to live. If telecommuting becomes more common, will large urban centers see less demand than more affordable locales?

"People live where the jobs are, but they are more aware of living in more 'risky' areas," Rushmore's Terry Smith said. "For example, folks look to move away from flood areas and even concentrated cities. Government assistance programs are encouraging this—look at Puerto Rico where aid is being given to relocate out of flood zones. As remote work becomes more common, you may see folks start to move away from the cities in which the physical companies are based into areas that are deemed less 'risky.' That could be telling."

However, in general, there's also been a trend among Americans toward warmer climates and more coastal areas—regions which bring some inherent risks when it comes to natural disasters.

"As people shift toward those coasts and those areas that are easily impacted by natural disasters, it puts more people in the path," Rath said.

A NEW KIND OF CRISIS

The impact of COVID-19 has been felt far and wide across all parts of the American economy and way of life. At the end of May, Black Knight reported that the national delinquency rate experienced its highest single-month increase in history in April. Some 3.6 million homeowners were past due on their mortgages as of the end of April (including the roughly 211,000 who were in active foreclosure)—the highest number since January 2015.

The national delinquency rate nearly doubled to 6.45% from March, the largest single-month increase ever recorded, and nearly three times the previous record for a single month from back in late 2008. According to Black Knight data, close to 9% of all active mortgage loans were in some form of forbearance as of the week of May 15. This amounted to a total of 4.7 million homeowners, up from 4.5 million loans reported the week prior.

According to the Bureau of Labor Statistics, the advance seasonally adjusted insured unemployment rate for the week ending May 9 was 17.2%.

"We understand more than ever that these types of issues are not necessarily preventable nor the customer's fault," Rushmore's Terry Smith said. "When these types of situations arise, it's important to understand the needs of the customer and to work with them to get their situation corrected. It also helps to understand that the needs of our own workforce need to be accounted for, as many of us are impacted in the same way as our customers."

Smith told *DS News* that, operationally, he believes that the industry's COVID-19 response has been simpler from a preservation perspective than with some natural disasters, "as the ordering, tracking of Inspections, and MSP flagging of the loan has become a very efficient and fast process."

"This is uncharted territory," Greenbaum said. "Nobody has any idea how long or to what extent it will last, so there's definitely an information gap. A lot of what we've tried to do is to just talk to the right people and then pass that information along to our clients."

According to the Safeguard team, one of the first things they did in March was to host critical discussions with investors and agencies to try and get a feel for their expectations of what was to come.

Another critical question during those early days for property preservation in particular: would this sector fall under the category of "essential services?"

"Is it okay to continue to do your job every single day?" Greenbaum asked. "That was one [area] where we were pretty aggressive in understanding our position we could communicate with our contractors and our inspectors."

There were lessons to be applied from both past natural disasters and the 2008 financial crisis, but one key difference came down to the simple matter of scale.

"We've built solid gameplans for disaster response in certain regions, for certain types of disasters," Jaffa said. "But how do you manage that when it's the entire country?"

Greenbaum said that most of the Safeguard leadership team had been in place during the previous housing crisis, so "we all knew the need to be able to expand quickly." This led to Safeguard's strategy of maintaining a broad network of vendors, rather than concentrating a lot of volume on only a handful of vendors.

"We always attempt to work with local vendors with boots on the ground for redundancy reasons, but also scalability reasons," Greenbaum said.

"Everyone is trying to do the right thing, and they're acting very, very quickly—but then they're also changing very, very quickly. So, it's critical to keep up with the mandates but you have to accept that those can change frequently during these unfamiliar times."

—**Linda Erkkila**, General Counsel, Safeguard Properties

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"It should be concerning for every community around the country that there are vacant properties that may not receive an inspection for up to a year."

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Nevertheless, this was a crisis where the unknowns far outweighed the knowns. While this reality complicates the already challenging process of ensuring workforce scalability, Greenbaum explained that the fundamentals still apply.

"We don't know what the overall impact of forbearance is going to be. We don't know what the timing or impact will be on the court system," Greenbaum added. "But our response is still based on our ability to scale our independent contractor networks quickly, so we'll use those same lessons learned."

"Trained vendor capacity is also a concern as the spike in necessary preservation services will likely be significantly increased once moratoriums have been lifted," Smith told DS News.

Greenbaum said that, whether REO volumes change significantly due to COVID-19 or not, the way the company has evolved its systems and workstreams will allow it to scale and to shift team members around to meet needs quickly and efficiently.

"All the core fundamentals around what we do remain relatively the same, with a few adjustments," Greenbaum added. "There's minimal ramp-up time to get people moved around."

Mehok credits the guiding philosophy of Safeguard's founder, the late Robert Klein, with helping set the standard for his company's nimble approach. That approach demands an ongoing investment, according to Mehok: "In the company, in employees, in training, and in technology. If there's a quick ramp-up in volumes, we're prepared because of that ongoing investment in the long-term. Because of the experience in dealing with the financial crisis, with the natural disasters, we know that, as a company, you have to be prepared. 'Plan for the worst, hope for the best' is part of the culture."

SHIFTING SANDS

One aspect of the industry that became even more pronounced after the 2008 crisis—and in light of modern challenges such as the pandemic and increasingly damaging natural disasters—is a commitment to ensuring compliance. That can be easier said than done, given the complex and ever-shifting web of regulations encompassing the mortgage industry.

As **Linda Erkkila**, Safeguard's General Counsel, notes, "When you have a natural disaster, you have a start and you have an end, in one geographic territory, and the response is somewhat familiar. [With this pandemic,] every state is impacted, the end date is uncertain, and every state can respond differently based on its impact. Everyone is trying to do the right thing, and they're acting very, very quickly—but then they're also changing very, very quickly. So, it's critical to keep up with the mandates but you have to accept those can change frequently during these unfamiliar times."

"Fast forward a year from now, I can tell you that the different states and cities within will have all new things that we haven't even thought of yet," Jaffa said. "No one was thinking about vacant property registration in 2007 or 2008, and now that's just part of life in this business. In 12, 18 months from now, we could be in a place where before you do an inspection, before you cut grass, you need to let us know if the property was in a forbearance plan, for example."

Mehok said that improvements in technology over the past decade have made all the difference when it comes to staying atop the shifting sands of compliance.

"Now, all the communication we have with our vendor base is through a mobile device," he said. "They collect information through that mobile device, whether it be photos or videos. All of the rules in terms of local-level ordinances, condition of properties, that can all be communicated to those contractors in real-time, collected in real-time from the field, and then submitted in real-time back to the investors and servicers. That type of automated workflow will put the industry and local communities in a much better position compared to 2007-2010."

Of course, technology has also proven invaluable as the industry, and the world, moved to respond to COVID-19. As I write this, I'm seated at my desk in my bedroom, rather than at Five Star's offices in Dallas. It's been more than two months since I've seen my coworkers in person, but in many ways, we're more effectively in touch than ever before—all thanks to enabling technologies such as video conferencing and workflow management apps.

Jaffa told *DS News* that the use of video conferencing is taking interactions between Safeguard's team, vendors, and clients to "a whole other level." He anticipates that that change will become a permanent part of the company's workflow, regardless of when we return to "normal"—or what that normal looks like.

"Kids are upset in Ohio," Jaffa joked, "because you'll never have a snow day again."

And while the past two months have looked very different from what came before, it seems likely that the road ahead will also look very different than what had served as the status quo for some time.

"It definitely will not look the same, Erkkila said. "We want to be able to flip a switch at any time and let folks come back in and have the office ready for three months, or for three weeks. The big piece is that you want to make sure that, if the employees come back, they are comfortable being back in the office."

Jaffa said that his team has also utilized the realities of this "Great Pause" to ramp up communication even further with their partners, and about topics they might not otherwise have delved into with such depth.

"In the last two months, I've had more meetings with the operational folks, asking them a million questions like, 'Well, why do we do it that way?'" With so many systems and processes forced to be adjusted to deal with the realities of a pandemic, it's a perfect opportunity to look beyond the necessary and ensure that things are being done smartly, efficiently, and that best practices are truly that.

WILL THE GRASS BE GREENER?

With so many questions remaining about the months ahead, from what daily work life will look like to how and when the economy will fully recover, there are several key areas of concern that have the industry's attention.

While discussion about the numbers of homeowners entering into COVID-19-related forbearance plans has been a hot topic for weeks, Jaffa takes the problem down to ground level—literally.

"If a homeowner—whether a tenant or not—is on a six-month forbearance, and they move out, we're not going to be inspecting that property," he explained. "Our clients will have no contact for six months. Keep in mind, you could have been in delinquency for 90 days already, and you could get a forbearance. Are you staying? Are you maintaining? Are you out? Neither our clients nor us will know those answers for six to 12 months."

As one potential problem area, Jaffa said he foresees an increase in grass-cut fines as properties in forbearance sit empty and unmaintained while the forbearance clock counts down.

"There are some adverse impacts on our ability to address property issues if property access is unable to be gained," Smith said. "That ultimately could impact various communities across the country."

"It should be concerning for every community around the country that there are vacant properties that may not receive an inspection for up to a year."

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