National Property Preservation Conference 2019 Recap
November 4 & 5

Keynote Speaker - Brian Montgomery, Assistant Secretary HUD

Spoke about the False Claims Act – based on 1863 law with merchants selling bad meat to Union troops with triple damages on fines. This was the basis of what was used against industry during the most recent recession in terms of HUD.

FHA has lost significant market share. In 2018, only 14% of their volume was originated by top lenders compared to 2011 when it was over 60%. DOJ initiative to utilize the law and not late October 2019 (William Barr directive) was it rescinded in hopes of spurring FHA lending at traditional lenders. Additional benefits in this arena to these traditional lenders is the recently announced Paperwork Reduction Act, new lending certifications, and the creation of a Mortgage Review Committee. The hope is this will increase access to credit along with bringing a common sense to the process.

FHA is also committed to Improving its technology and was granted an initial $10M initial commitment in the 2020 Budget. FHA will have access to FNMA's Collateral Underwriter offering once FHFA approves. There is a need to bring their technology up to modern standards and there are Pilot Projects focused on the Claims process that are evaluating Robotic Automation (AI).

One of the largest challenges is how to make FHA Loans more conducive to today's lenders/market. The largest area for improvement is to modernize the processes which are largely unchanged from the 1980s. This is especially challenging in terms of finding the right talent and so recent solution is to bring in early retirees from FNMA/FMHLC. That said, rulemaking, the process required by law, typically takes a minimum of 12-14 months for minor process changes not the large-scale ones required. There have been some wins in this area, specifically an initial ML on Disaster Recovery. One large difference that is allowing FHA to make this push is the monetary exposure associated with their product which has ballooned to $1.3T from $350B in 2005 along with their market share which rose from 2% to the current 14%. This has occurred even though the number of employees has dropped by 600. FHA was instrumental in getting the nation through the recent housing crisis as over 8M people utilized the product for over $1.2T from 2007–2012.

FHA also is impacted by Affordability as their charter has loan limits. One possible solution being evaluated is the creation of an Affordability Council with CA specifically in mind. Affordability is further impacted by a lack of space (land) and regulatory requirements in localities which drive up the cost even before there has been a shovel in the ground to build. Manufactured housing offers an opportunity in this space as it looks like normal homes and can be build offsite. A challenge to this solution is in appraising these homes. That said, the Industry moves regardless of the limitations/rules that HUD has in its charter. The inclusion of condominiums as a product the FHA can lend to is a growth opportunity as well. One interesting fact is the average age of HUD Homebuyer is currently 38 versus 30 in 2000.

State of the Industry

Alan Jaffa – Safeguard Properties, Brian Martin – Dakota Asset Services, Caroline Reaves – MCS, Jake Williamson – Fannie Mae, Shubha Shivapurkar – Freddie Mac, Tim Rood – The Collingwood Group

FNMA has a rating scale for REO properties that ranges from C1-C6 with C1 being the highest. Most of their most recent additions to their inventory are rated as C5-C6. This leads to delays in returning to the properties to the market and puts financial pressure on all parties, including the work performed during the pre-sale process (inspections AND preservation). When asked about volumes, the panel agreed that the industry could handle higher volumes. Technology is helping but is not substitute for the true focus of the industry which is identifying when a property goes vacant. The key is to get things right the first time and build upon that at each visit. One of the challenges is in the quality of the work being performed and when volumes were higher there was not as much time to focus on this aspect but as volumes decline there is a laser focus and the expectations have gone up significantly. Competition is increasing and expectations are ratcheting up with an expectation of “lots more for less”. The challenge in this is the lack of streamline communications within the government which is fluid, and everyone is serving someone. A key to success in this area is to take a unified approach vs pushing individual agendas. There will continue to be increased compliance demands which is why reporting is so important. That said, reporting cannot address some of these things that occur and are impacted by limitations within the regulations. The acquisition of M&M by MCS was mentioned and the purchase was about scale and Miami location in an industry were overall volume is down greater than 50% year over year.

Appraisers were discussed and an interesting fact that was shared is that 62% are over 51 years old with 13% of that being over 65 years old. There are presently 76K appraisers in the US and that number has declined 3% year over year. Industry is working to change this along with Urban Institute, Altisource, & Appraisal Institute, not just in numbers but also in diversity. One big win in this area is the recent change in the number of training hours which was reduced to 1K from 2K. An additional improvement would be to limit the length of time one must work under an appraiser prior to being able to work on their own down to 1 year.

In terms of vendors to provide services, the labor market is extremely tight with lower volumes which has cause issues. The need for companies is to take a more gig economy approach with training and diversification a key to future success. An opportunity to utilize a uber-like approach to services such as inspections, grass and snow removal is becoming a reality.

Foreclosure timeframes have reduced significantly but are still elevated in certain areas. Those elevated areas have seen the length of time drop from an average of 1600 days to 500 days. One of the lessons learned from the last crisis with that early intervention is key to success. This has led to pilot programs evaluating workouts with homeowners and working with PACER & Attorneys. A success story from the crisis is the alignment of FNMA & FHMLC under FHFA. Continuing this approach throughout the entire industry would result in Industry Best Practices. The challenge with alignment is difference of the HOW and is typically dependent on a company’s mission. There would need to be an inter-agency taskforce to implement BEST PRACTICES. That said, there is some school of thought that believes that different standards and pricing is a real benefit. A key to success in terms of conveyance is the engagement and decision-making of clients. If it is late or non-existent there is little chance of success.

In terms of what is on the horizon, policy and program changes will continue to occur which is a risk for which you cannot prepare. The change in administration has been helpful in terms of regulations but it is the macro economy is the driver. Reviews of CFPB, Ability to Pay and QM Rule are good things but what comes out of those may require modification from current processes.

Questions that were posed during the session:

Sales Tax – who is responsible? Partial answer is to obtain exemption or non-exemption certificates where applicable and others are utilizing an entire third-party database/oversight to address. Reality is taxes must be paid where and when applicable or extreme liability for which there is no sunset date.

Will alignment into a single industry standard continue? Partial answer is that FHFA drives as the individual entities cannot meet without their blessing/oversight.

What will the delinquency rate be 1 year from now – Majority felt it would be the same

Code Enforcement Panel
Chip Nolan – M&T Bank, Kelvin Beene – AACE, Tom Kalas – Five Brothers, Michael Greenbaum – Safeguard, Paul Swindle – MCS, Paula Parsons Grubb – Sarasota Code Enforcement

There are common themes to code enforcement issues which are monetary, senior households, and HOAs (Homeowner Associations). The top 5 code violations reported are Grass (20%), Debris (15%), Ext Repairs (10%), Landscaping (7%), and Securing (6%). The particularly challenging code enforcement issues are the ones that are quite expensive or for issues that have been in existence for long periods of time. These are typically not covered by allowables and/or are often greater than $5K and as such are not quick fixes. This is especially true for properties that are going through foreclosure as there are limitations according to the investor guidelines along with concerns of preventing the homeowner from coming current. Finally, the lack of autonomy for decisions along with delayed response times (reporting up the chain) leads to lack of resolutions for the code officer.

Communication is key to have success in this area. One must work across silos, utilize available tools throughout the process (special trainings, income-based assistance, points of contact search, etc.). Some industry solutions such as Compliance Connections and NAMFS Alliance exist but code officials will NOT pay for a service. There continues to be some outreach related to education as to what can be done pre- and post-sale through lunch and learns. Overall code officials are seeing increased activities pre-sale to resolve traditional code issues which helps prevent blight later in the process

One solution discussed was the BATF (Bid After the Fact) which can work but needs to be well documented and very prescriptive. That said, some investor/insurers are not in favor of this approach. Another solution is one in New York which has a State-Wide Code Enforcement guide which eliminates the nuances of each locality.

Vendor Management – Jim Vaca – Altisource, Rebecca Tweed – Umpqua Bank, Sean Snook - CRFS, Bob Whelan – Property Pres Wizard, Hoss Gabbard – Homepoint, Joe Iafigliola – Safeguard Properties

Many Servicers are looking for their vendor to provide guidance or to give them what they need based on loan type, while others have their own way on what they would like to receive and are more directive in their approach. In the current environment, lower delinquency and default, and with newer players in the market, the staff is small and little time for direct interaction with field work personnel. In order to be successful in handling these properties it is imperative to have frequent meetings and gain understanding and alignment with a key area being understanding differences in language (offshore as well as regional).

Scorecards remain a major component of performance evaluation due to their emphasis on timing, scope, quality, capacity modeling, and pricing. That said, they do have challenges and are limited in their ability to provide solutions, many of the more challenging properties will always fall outside of acceptable scorecard performance but the ability to provide resolution in these instances should have higher weight. Monthly reviews sometimes do not tell an accurate story especially when dealing with problem properties and/or those that have been granted extensions or have hazard claims repairs involved. Scorecards can be utilized for action plans on timeliness, but quality is more subjective. Unfortunately, when poor quality is found, the reaction/outcome is swift and heavy-handed regardless of where one is on the value chain.

Overall the industry portfolio profile is shifting away from urban density to more rural properties. This is challenging for multiple reason including location, travel time, often outside of allowables due to lot size, lack of code enforcement, volume, etc. Answer has been to utilize vendors that cover higher volume areas as they may have a better chance of making it work versus a single property vendor. Additionally, the current system does not take this rural nature of the business into account in any aspect of the business, from turnaround times to even getting to the property (bundled property approach – head to this area once a week).

Mobile technology is also impacting the vendor network from data collection and geo-coding through “real-time” information. That said, this information needs to be improved when presented to the clients as too much information with their limited staff can overwhelm and result in decision paralysis.

Some key growth/industry wishes included:

- Standardization – Inspection forms, Background Check, Invoice Agreements (timely and clearly defined dispute processes)
- Taking inspection data (transfer into the investor portal), notification of emergency situations
- Machine learning/photo recognition especially in terms of bidding along with photo validation for approvals, as well as, damages, winterization, etc.
- Delegated approval probably for low dollar threshold
- Photo recognition for changes in property condition is probably further out and or Ring Doorbell-like 24hr monitoring solutions

PP Hot Topics

Tim Rath – Safeguard, Rhonda Armitage – VA, Raquel Pasala – USRES, Alden Knowlton – MBA, Jesse Roth – Auction.com, Ed Mullen – Cyprexx, John Thibaudeau – Fannie Mae

Topics identified: Vendor Partnerships, PP & Servicing Insourcing, Disaster Preparedness/Response, Speed to Market, NJ DEP A-901, FNMA Pre-Sale Initiative, Elections & Housing

NJ A-901 License – Transportation of waste, use an approved vendor ($80 per cyd), PRIME VENDOR – Self Generator (roofer, landscaper, homeowner), all owners have to go through process including their indebtedness (1yr to 1.5yrs), quarterly reports and 2.5% on your revenue paid back to NJ DEP, Nationals have been cited are seeking a court date with cooperation with other industry participants.

FNMA Pre-Sale initiative currently has approximately 100K properties with a servicer which is ~25% of FNMA's delinquent portfolio), The focus for 2020 is to add large servicers and figure out how to bring in small servicers effectively.

Elections & Housing - Equal Rights and GOP will not flip the House (19 seats) nor Dems the Senate (need 4 seats)

Hazard Claims

Amy Rutstein – Fannie Mae, Baker Breedlove – iProperty Claims, Mike Mulica – Safeguard, Robyn Markow – Quality Claims, Ryan McDoulett – ISN Corp

Pre-Sale Claims (Mike) – more benefits to repairing early Including supplemental claims, Robyn – High vandal area properties should be evaluated as it relates to sale date and recoverable depreciation

State Farm is particularly challenging with insurance Forced Place – lender placed versus Retail – homeowner placed. Vacant properties have a higher rate due to risk and most likely force placed. Retail is more comprehensive. HUD wants surchargeable portal used for insurance related bids, FNMA goal is protecting collateral not repair but want the claim made. FNMA new policy update – ELIMINATE INSURANCE AT TIME OF FC SALE FOR SERVICERS VERSUS CARRYING THROUGH REO PROCESS. Also looking at enhancement to pre-sale inspection and PP program (FNMA providing services) by adding Insurance into the process.

Claim Filing – Conveyance Process (Robyn) – Need a clearly documented timeline and centralized reporting. Multiple vandalism – can wait until end of business release for same day completion

Extension requests – need to document/photo NEW DAMAGE and be sure date of loss is NOT long ago.

Wind vs water – need to understand and NOTE source of damage (wind driven rain – no coverage), Flood Zones – most policies do NOT have flood insurance 25% of flood losses are outside designated flood zone, maps not updated frequently enough (every 5 years), renewal of the Federal Flood Program is not appropriately financially supported

Hurricane Deductible – State Farm from first warning though 72hrs after the last watch/warning for any claim. Not applying a storm deductible which is much lower. LA issued a cease and desist.

Understand the mitigation effort in order to make sure additional claims could be paid out. FNMA has allowables for temporary measures and more permanent repairs but will also accept OA requests. Servicers do not have to perform an inspection on all properties in disaster zones. It is acceptable to use modeling and other sources to justify decision for NO inspection.

NO access – drones, file/report as so as possible.

Call logs and notes are difficult but emails currently more acceptable for an extension request

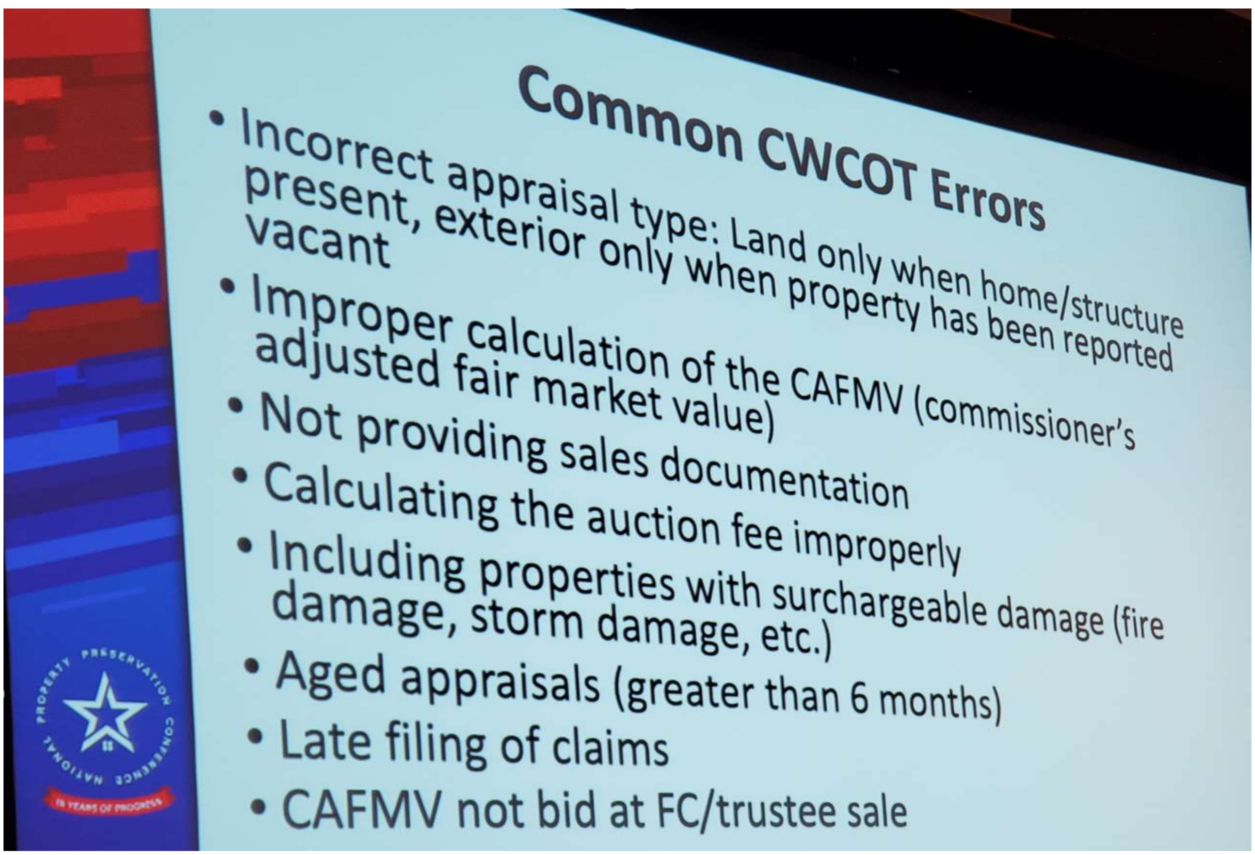
Request to Convey as is – HUD wants to see at least one attempt to repair prior and if approved they will look to be reimbursed full amount not depreciated amount.

FNMA – if vandalized more than once then should install Door Armor and/or Clearboarding. If need more than bid through OA

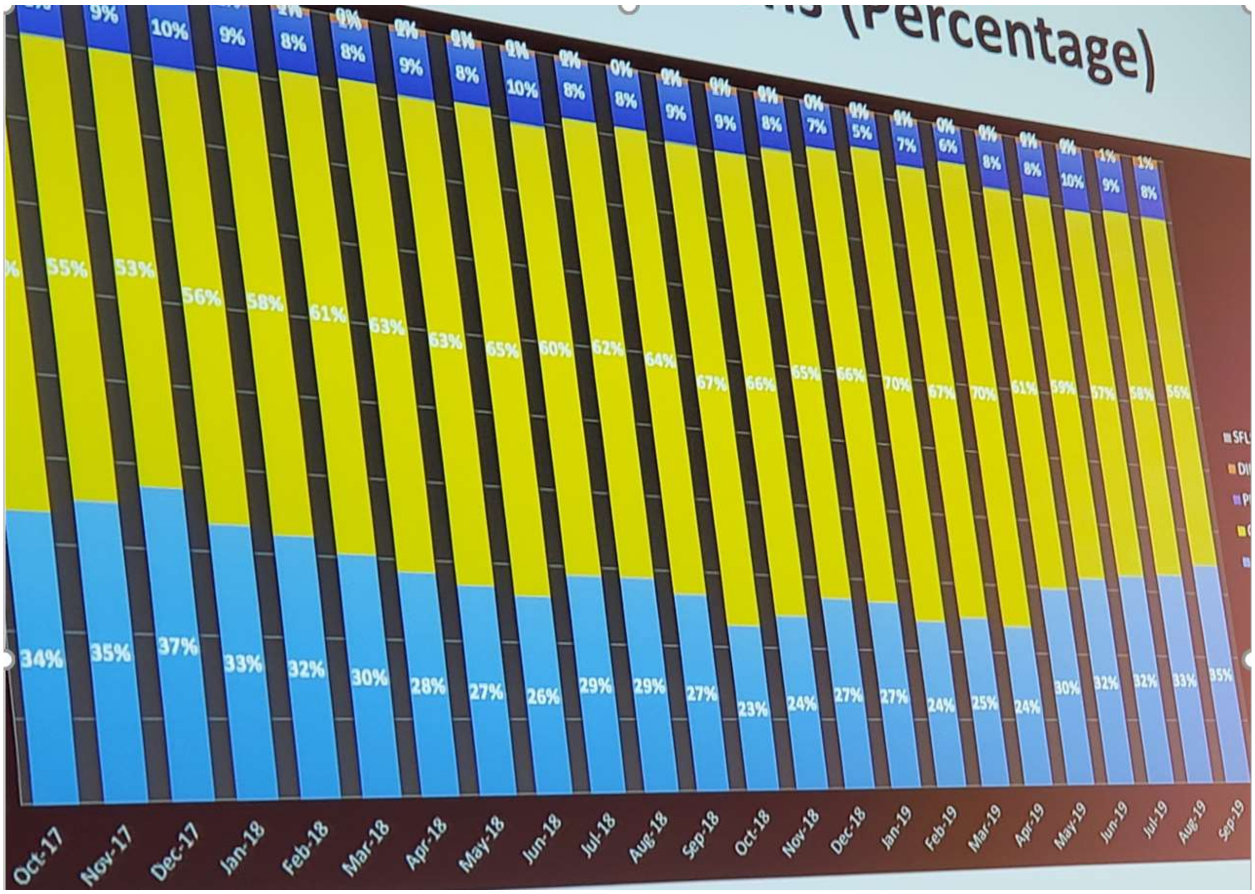
HUD will want proof of waiting for a supplemental bid – ESCALATE TO SUPERVISOR OR MANAGER

Brian McGivern – Fay Servicing, Jodi Gaines – MSI, Lindsey Pryor – Altisource, Matt Martin - HUD

CWCOT is resulting in quicker return of properties to HUD which results in less time at the property for field service providers. This program was created in 1987 and has been updated twice in recent years, 2008 and 2014. Participation in this program is mandatory for servicers with over 5K properties and results in lower carrying costs for HUD properties. Key benefits are faster disposition, fee curtailments, faster re-occupancy, avoid reconveyance and less out of pocket expenses. A property CANNOT go through this program is there is surchargeable damage – Big 6 and Mortgagee Neglect.



HUD currently has 6K properties in the conveyance pipeline which is down from over 40K during the crisis. ~1200 properties a month being conveyed vs crisis volumes of ~5-6K. One area of focus is appraisals on original documentation



Updated ML that will enhance the CWCOT program is coming in Feb/March 2020. RISKS – missing timeframes, no interior appraisals, monetary difference if issues found.

Risk to holding - vandalism, carrying cost, time in portfolio. Servicer can add contribution which takes these factors into account for 2nd chance properties.

Areas for Improvement - 2nd appraisal, allow contribution at first sale vs waiting for 2nd chance, allow auto extensions if going dual path, allow eviction fees and costs and finally allow surchargeable damage properties and reduce claim by hazard proceeds.

Conveyance timelines need extended in 30 days for those properties that do not go through CWCOT and 2nd Chance. This is regulatory not policy so difficult to changes.

Keys to success: Make decisions timely and as early as possible, Reconveyance will be costly so consider use of 2nd Chance sale, use data analytics and model to make decision, actively manage properties

DAY 2

Sandra Thompson – Deputy Director at FHFA

11 year of conservatorship of FNMA & FMHLC, new director that has done more in 6 months than the prior 9 years. 400K to 22K REO Assets with these enterprises. Focus on protecting taxpayers but also opportunities for non-profits for first 20 days with idea of community stabilization. 5 years since community stabilization program with pilot in Detroit ($75 -175K properties). Increased rates in homeowners – with 600K properties sold through this program. Blight remains a problem and blame is assigned to Servicer according to Sandra. GSE have reduced delinquent loans and REO but also updated their technology to better prepare for the future. Created a standard modification program as so many different programs led to confusion – Flex Mod. Deeper payment relief which is the key to help borrowers. FHFA – Mark Calabria has clearly stated goals for this group and change from the status quo. Building momentum for the $5.6T in guaranteed mortgage through GSEs with a modification from $6B reserves up to $45B. Most recently released a scorecard for the GSEs and must prepare for their eventual release from the conservatorship.

Possible loosing of credit tightness – 500 institutions failed during last downturn. Dodd-Frank & QM Rules are good and limitations on what the GSEs can purchase in terms of originated loans. Lower credit ratings not being allowed has limited home ownership which is an unfortunate truth. Programs for 97/3 loans to address this but the credit box is opening slightly as the need to take on a loan for the life of the loan. REAL RISK MANAGEMENT! What are the keys to maintaining stability – Real Estate, Originator, Insurance, Product/Remedies and Access to Information. FHFA Town Halls – inside and outside events where stakeholders are brought together to discuss key industry issues (Appraisals, Servicing, MI, etc. Non-bank Servicers is current focus with understanding of capitalization etc. Simple policy/rule-change can have major impact. Has been involved in 2 crises (S&L Loan Crisis & most recent Housing Recession). Securitization for the S&L failures - $40B in commercial/multi-family properties. She also was involved on the Y2K issue. Has worked with 7 FDIC and 4 FHFA Directors. FNMA – uses Auction.com and Servicing Guide. Their failure to act led to the Community Stabilization Act to address their low value and selling to investors versus actual local homeowners. Important for standards and consistency of preservation across the country. 25M properties are single-family rentals and FNMA/Freddie pilots were tried but the market did not need them to bring to institutional investors but will support up to 10 or 6 properties for smaller investors.

Pre-Conveyance Session – William Collins – HUD Servicing Center, Deb Pietch – Cyprexx, Tracey Hager – MCS, Chad Soppe – NFR, Jim Pike - Xome

HUD should have a pre-published document of updated Servicing Guide/Handbook around first of the year as it was sent up to Washington DC on November 1. Aligning with GSEs and updating CWCOT, Loan Modification, ML to adjust processes, streamlined so hopefully it will be in update around March 2020. Max Cap question – inspections & grass inclusions along with removal of one-time event are being reviewed. CWCOT cannot prevent reconveyance and helps prevent daily holding costs for HUD. Updated haircuts. HUD wants Dual Path – 2nd Chance and Conveyance.

Panel agreed that it is imperative that there be no delay to starting dual path. In fact, it is best if during the Pre-sale there is a push to obtain insurance funds for repairs. It is also a best practice to request a chronology in order to complete your research prior to the FC Sale. In order to ensure the best chance of success for conveyance the process needs to start during the pre-sale timeframe. There needs to be a sense of urgency and that this a race to the finish. Teamwork is key to success as the number of handoffs and coordination is immense. MAKE DECISIONS versus waiting and need to look at the property (UPB, bids, location etc.) well in advance. CWCOT has taken most of the properties and leaves the difficult properties to convey. Possible solutions – Insurance, pulling original documentation and clearly articulate case. Need to organize and partner with the clients

Conditions that continue to create confusion – Water in basement, water stains, soffit/fascia, weak/spongy floors and vines. FSM vs ISN difference interpretations. If addressed the source there should not be held accountable. HUD acknowledges that changing contractors can cause issues. Pilot program for pre-conveyance inspections could be a solution. HUD also admits that some FSM are talking about non-conveyance issues. FSM may/may not be reviewing the properties in P260 which is something that is being discussed with the 4 HOCs. Can visit ISN to meet with them. If asking for elevation of issue/appeals, then ONLY SEND the photos/documentation of that issue. Inconsistency between HOCs especially for by-pass agreements. This will continue to be a problem.

How to reduce bid denials - ISN has really improved especially when visiting with them as will even host weekly meetings. Bid everything possible at FTV, monitor the responses from ISN so can modify narrative/photos etc. Photos are the key to help document the story as they can prevent mortgagor vs mortgagee neglect. Make sure bids are in line with CE, dialogue is key.

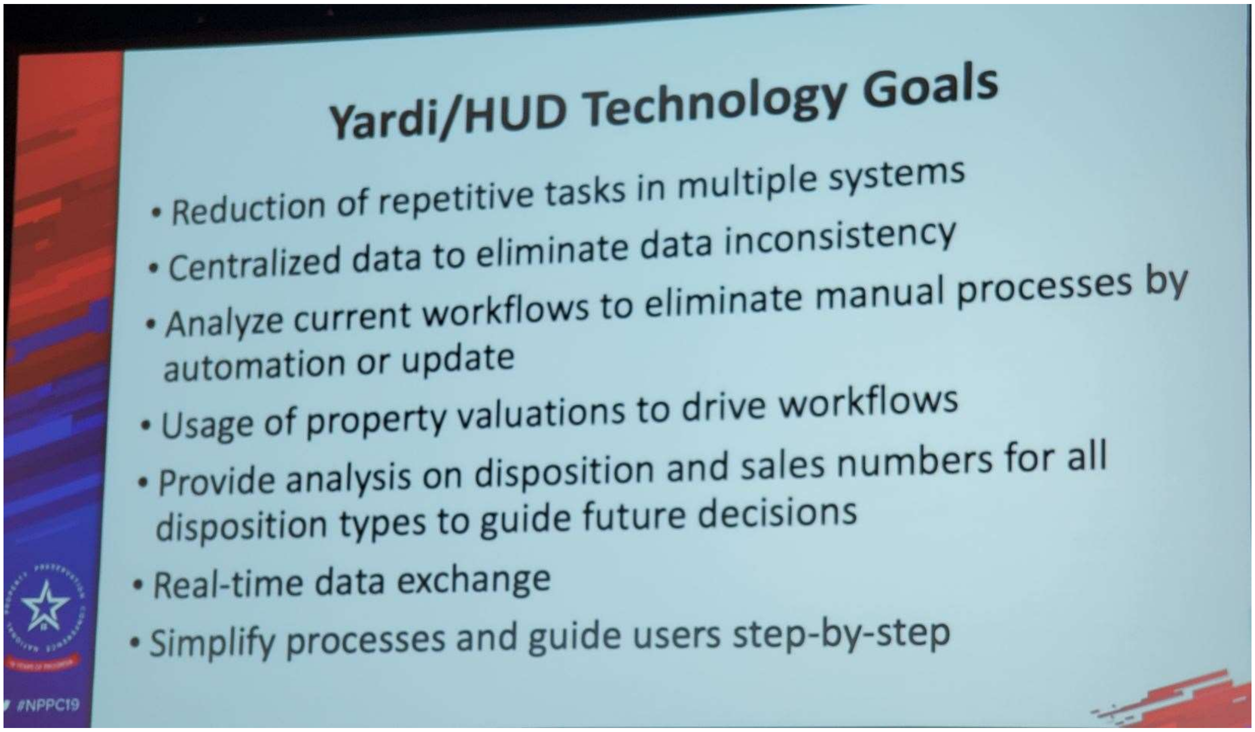
Technology Impact of Data – Andrew Hawronsky – Black Knight, Brent Davis – Yardi, Dale Walters – Freddie Mac, John Vann – Cyprexx, Rick Moran – Safeguard Properties, RJ Cavalier - Altisource

Transform data into information (i.e. materials that make a home) as information is how you make critical business decisions. Sources include the Mortgage Monitor Report -Black Knight and also available on NAMFS website (https://www.namfs.org/servicing-guide-and-industry-links/)

Mobile Data Collection improves the timeline and AI, along with video, are on the horizon but need to address storage and how to view. One solution is to embed video with low/no barrier. Voice to describe what is being displayed is the real value. That said, how to include while in the field and by field personnel may not be feasible. Yardi is looking to figure out how to make video available throughout their systems as it is NOT currently available.

Data flow and providing the correct data through automation to other systems is a focal point with the key being to drive decisions. With this data you can find impediments to the process and then provides a list with a timeline for resolution which can help address the conversations with appropriate entities.

Where is Yardi going?



Data transformation is not accurate enough and is being worked on. Multiple uploads should be eliminated and flow over into systems. System should provide step by step directions. Safeguard reported that it has integrated end to end with Yardi

Cyprexx is using/tracking access management (Passcode) which uses NFC Tech (small amount of meta data and powered by the phone that is scanning which allows tag in and tag out at the property. Entry Management system which utilizes Bluetooth locks which can give and revoke access. Unfortunately, this is being used mor as a punitive measure.

Too Much Data Issue – Needs to be standardized in order to be consumed/utilized. Internal data group that is scrubbing to automate processes that comes from these other sources.

Freddie Mac – modeling and analytics to reduce the ask for additional data. Part of the re-imagine Servicing Program. Several lines of business that are under review. Expense Reimbursement moving off VendorScape platform (working with Safeguard).

Exchanging batch files and moving toward real-time file transfer. This will allow automated QC which can eliminate whole classes of costs.

Moving to a standard – MISMO is an example, bring on new vendors, data mining and analysis would be enhanced.

Predictions and Risk Mitigation:

- AI is doing the looking vs actual people but need to monitor the AI.
- Put data into a single system that allows people to build their own models

- Allow systems to make suggestions.

Photo recognition – AI to help what work is needed and can be approved at the first time of visit. It is important to invest in AI as this a real solution.

Passcode uses a free app to register and can be placed in single or multiple places at the property. Gain info on length of time at property.

The future – huge automation enhancements. AI is good at stare and compare which is the easiest path to RPA. Yardi is exploring AI and you asking questions to see the results. Freddie also believes that AI & RPA is going to really change things

ISN Updates

Automated same day submission through a button, Supporting Documentation (extensions will require at least 1 piece of data,

Unnecessary OA Submissions - $5K Cap not met or under the allowables, Duplicate OAs that have previously been approved or addressed so may need to review history. Cosmetic bids are not required unless there is Code or HOA guideline based, OAs for INSURABLE DAMAGES (Freeze, Storm) as these will NOT be approved unless no funds available which would take it through the surchargable path of P260, Non-conveyance issues – door damage, carpet, paint. Excessive Scope – complex bids for small jobs (tuck pointing versus foundation replacement). Repair vs Replacement. Roof – Patch/Repair unless multiple rooms impacted, multiple places of missing shingles, etc., Landscaping – Need to provide HOA guidelines, unnecessary grass cut especially with desert landscapes.

CWCOT Enhancements

Enter the dates or will auto-populate and will automatically miss timelines (widget), makes sure you have required documentation, Common Mistakes – Lack supporting documents, Incorrect Appraisals, Incorrect determination of auction fee, surchargeable damage exists (missing floors, no house, fire, missing roof

BEST PRACTICES – select correct claim type, supporting documents for claimed items, upload into CWCOT Module directly, label documents

Appeals, Escalations, and Best Practices

Overallowables

- Respond timely to initial decision
  - Failure to appeal within a reasonable timeframe could result in mortgagee negligence.
- Provide supporting documentation that is requested in initial decisioning
- Provide a clear and detailed explanation/reason for the appeal
- Clearly state what line items are being appealed
- Any OA appealed is susceptible to a new and full review
  - Due to new information and details being provided

Appeals, Escalations, and Best Practices

Demand Appeals

- Provide appropriate appeal documentation with the first appeal
- Review demand and appeal responses fully before escalating
- Label appeal documentation
- Limit "data dumps"
  - Unnecessary Inspections, 30 Attachments of Photos, etc
- Appeal to the MCM first, HUD appeal is the last option.