

# **2022 NAMFS Conference for Mortgage Field Services**

## **May 2-3, 2022 Embassy Suites Orlando Lake Buena Vista South**

### **NAMFS Industry Pricing Initiative Update**

**May 3, 2022, 9:00-10am**

#### **Presenters:**

**Dror Oppenheimer - Gate House Strategies**

**Matt Zoldowski - NAMFS President**

**Eric Miller - NAMFS Executive Director**





# Mortgage Field Services Pricing Discussion

---

An industry perspective and proposed solution to address pricing inequities in mortgage field services

# Fair Trade Disclaimer

---



Neither the National Association of Mortgage Field Services (NAMFS), nor our members, are attempting to fix prices or create collusion with our discussions regarding this issue. NAMFS members work separately with their respective clients and arrive at their own pricing structure independently, without consultation or agreement with any other party for the purpose of restricting competition; and should never attempt to induce any other person or company to restrict fair and open competition.

# Agenda

---



NAMFS and Mortgage Field Services (MFS) Industry Goals

Industry Risks

Purpose

Background

- Problem Statement
- Timeframes, Expenses, Allowables
- Historical Comparison Summary

Proposed Solution/Next Steps

Appendix

# NAMFS and MFS Industry Goals

---



- Support a strong, viable, sustainable, and efficient housing finance system
- Ensure vendor safety
- Provide a quality product
- Continue to lead innovation in property inspection and preservation

# Industry Risks

- Property inspection and preservation is a vital component of risk management as home values increase (median existing home prices have increased 133% from 2002 to end of 2021 (\$149,428 to \$346,900))
  - Ensures properties are maintained as safe, sound, and structurally secure
  - Maintains accurate status/condition reporting
  - Mitigates financial, legal, and reputational risks for investors
- Incorrect occupancy statuses linked to:
  - Heightened losses (degraded assets, lawsuits resulting from improper clean-outs)
  - Increased neighborhood/community blight (reduced property values, increased crime, heightened risks to public health and welfare, higher costs for municipalities)
  - Increased fines and assessments (code violations, lawsuits)
  - Degraded business reputation

# Purpose

The purpose of this presentation is to bring awareness to the dire state of the mortgage field services industry, due to a mass exodus of over 70% of the experienced vendors since 2015, due in part to:

- Static pricing for over 10+ years to offset increased fixed costs, lower volumes, additional requirements, and increased risks
- Labor shortages
  - Capacity issues
    - 2021 - 10-15% of services are past completion timeframes
    - If a return to 2018/2019 volumes even greater risk
  - Experienced providers
    - Moving to industries with fair wages and less risk
    - Reaching retirement
  - Challenges in recruitment
    - Initial cost of entry vs. business opportunity\*
    - Worker classification issues – 1099 vs W2 \*\*

*\*e.g. Entry insurance policy for industry is \$2500-\$3500 annually with no guarantee of work or volume*

*\*\* Federal guidance has changed with each of the last three Administrations and independently several states have increased their enforcement efforts*



# Background: Problem Statement

No meaningful changes in industry-wide pricing for field services in over 10+ years to offset the following drivers of increased costs:

- Increases in the inspection and preservation requirements (shorter timelines, more information/photos)
- Increasingly restrictive requirements (mandatory check-in, proprietary software, demand to make contact)
- Significant and continuing increase in vendor expenses (insurance, technology, licenses, supplies, materials, gas – up an additional 33% since beginning of 2022)
- Heightened risks (charge-backs, lawsuits, claims against insurance)
- Degraded condition of properties → more difficult to meet expectations
- Fewer metropolitan/suburban concentrations = more rural/remote properties
- 2021 purchasing power was ~82% of 2012 dollars and 64% of 2002 (Appendix E). 2022 annualized inflation rate in March was 8.5%

## Results:

- Increasingly difficult to retain qualified service providers (constant turnover and recruiting)
- Risk to turn times and quality → risks to the industry



# Background: Timeframes and Expenses

Average Timeframes and Expenses*	Rural Interior***	Rural Exterior****	Non-Rural Interior***	Non-Rural Exterior****
Average total time to travel to**, complete, document, and report inspection from field	59+ minutes	33+ minutes	44+ minutes	18+ minutes
Average total supply chain expenses (Detail in Appendix B excludes labor and equipment)	\$26.98	\$24.93	\$19.15	\$17.10
Labor Cost – based on drive to property, time to complete service, and submit results (Detail in Appendix B 2nd slide assumes \$15/hr)	\$14.93	\$8.36	\$11.14	\$4.57

\* Detail found in Appendix A and B (Source: October 2021 NAMFS Industry Survey)

\*\*Travel to – reflects half of average travel time to and from the property (Source: October 2021 NAMFS Industry Survey)

\*\*\*Subsequent Vacant Inspection (Interior and Exterior)

\*\*\*\* Property Identified as Occupied (Includes Non-Contact and Contact/Door Hanger)

# Background: Expenses and Labor vs Allowables



- No change in pricing in 10+ years
- Significant increase in costs
- Rural inspections up three-fold, from 10% to 30%

Expenses and Labor Costs vs Allowables	RURAL INTERIOR	RURAL EXTERIOR	NON-RURAL INTERIOR	NON-RURAL EXTERIOR
Total Expenses and Labor Costs* (excluding equipment)	\$41.91	\$33.24	\$30.29	\$21.67
Current Allowable (FHA):	\$20.00	\$20.00	\$20.00	\$20.00
Difference between Expenses + Labor and Current Allowable (LOSS)	(\$21.91)	(\$13.24)	(\$10.29)	(\$1.67)

***Conclusion: Current allowable (\$15-20) does not support the cost of the supply chain.***

*\* Assumes \$15/Hr*

# Background: Historical Comparison Summary

## 2002

- Inspection requirements standardized, minimal data fields and photos, visible damages documented only, interior more limited
- Limited technology, volume/location/proximity favorable
- Limited bid/eyeball estimates
- Report visible issues ONLY
- Safety concerns documented without financial consequences

## 2022

- Inspection requirements vary, with extensive data fields and photos, visible and non-visible damages documented, and interiors required on all vacant
- Complex technology with multiple systems integrations, volume/location/proximity disparate
- Detailed bid with cost estimator justification
- Chargebacks/Demands/Curtailments possible for non-visible issues
- Safety issues unacceptable as justification to not complete services with a financial impact

# Background: Historical Comparison Summary

## 2002

### Inspection Pricing:

- Pricing by investor/insurer by state
- RUSH fees for shortened timeframes
- Recurring inspections payable \$15-25 or individual investor allowable
- Initial Inspection (Initial Secure) - \$25-30 is completed by preservation contractor

## 2022

### Inspection Pricing:

- Single line-item pricing by client OR lowest investor/insurer allowable
- No RUSH fees and shortened timeframes
- Recurring inspections paid \$15 based on lowest investor allowable
- Initial Inspection (Initial Secure) - \$35 is completed by preservation contractor

# Background: Historical Comparison Summary

## 2002

### Preservation Pricing:

- Plastic (tarps and clearboard)
- Winterizations – addressed 3 types
- Dump Fees – less restrictive
- Labor
- Lumber/Boarding

## Start of 2022

### Preservation Pricing:

- Plastic – 138% material price increase
- Winterization – eliminated radiant allowable and no change to remaining
- Dump Fees – 84% increase PLUS heavily regulated and increased special disposal requirements.
- Labor – 41% Federal minimum wage increase with additional 106% should \$15 be enacted
- Lumber/Boarding – 297% material price increase
- HUD Updates in 2016 allowables were below cost estimator justification
- HUD 2022 update removes certain allowables from spent to date, no increase in pricing

# Proposed Solution/Next Steps

---



Partner with the industry to champion and drive the following changes:

- Increase current property inspection pricing
- NAMFS Industry Pledge
- Immediately re-assess current property inspection and preservation requirements, timelines, and allowable expenses
- Institute periodic pricing reviews with industry participation
- Develop streamlined processes and a universal set of data points

# NAMFS Industry Pledge



Our organization, \_\_\_\_\_, pledges to be an active participant, along with the National Association of Mortgage Field Services, Inc. (NAMFS), in advancing the discussion on current pricing in our industry. Specifically, we wish to ensure the sustainability of this industry, and those who directly provide inspection and property preservation services in it. **We are willing to confirm this commitment by agreeing to share all allowable increases equitably and fairly with those directly providing mortgage field services on our behalf.**

**As further evidence of our support, we agree to at least three (3) of the following activities:**

- Participate in future industry efforts led by NAMFS
- Regularly share updated information in NAMFS surveys
- Promote, encourage, and support the NAMFS Academy
- Other: \_\_\_\_\_



# Appendix

# Appendix A (Data-Time)

FIELD INSPECTOR TIME AND MILEAGE	INTERIOR	EXTERIOR	RURAL (30%)	NON-RURAL (70%)
Average <u>miles</u> to drive to and from property			42.16	15.37
Average <u>time</u> to drive to and from property			48:39	18:05
Average time to complete inspection, document, and submit report from the field		9:15		
Average time to complete Initial FTV inspection, document, and submit report from the field	47:00			
Average time to complete subsequent vacancy inspection, document, and submit report from the field	35:30			

Source: October 2021 NAMFS Industry Survey

# Appendix B (Data - Expenses)

EXPENSES – SUPPLY CHAIN (Inspector, Regional, and National)	RURAL INTERIOR	RURAL EXTERIOR	NON-RURAL INTERIOR	NON-RURAL EXTERIOR
<b>Technology</b> – includes integrations, system(s) of record, etc.	\$5.25	\$5.25	\$5.25	\$5.25
<b>Insurance</b> – includes general liability, errors and omissions, auto, etc.	\$1.20	\$1.20	\$1.20	\$1.20
<b>Quality Control</b> – includes review of results and necessary adjustments	\$2.65	\$1.65	\$2.65	\$1.65
<b>Admin/Management Overhead</b> – includes system enhancements to address updates to requirements, property registration/tracking, code enforcement tracking/resolution, hazard claim reporting/resolution, repair and rehab tracking/resolution, etc.	\$5.55	\$4.50	\$5.55	\$4.50
<b>Mileage to property</b> (IRS 2022 Rate - \$0.585/mile)	\$12.33	\$12.33	\$4.50	\$4.50
<b><u>TOTAL</u></b>	\$26.98	\$24.93	\$19.15	\$17.10

# Data - Expenses (continued)



EXPENSES	RURAL INTERIOR	RURAL EXTERIOR	NON-RURAL INTERIOR	NON-RURAL EXTERIOR
Labor – travel time to property (assuming \$15/hour)	\$6.05	\$6.05	\$2.26	\$2.26
Labor – time to complete, report, and submit inspection (Based on subsequent inspection time and assume \$15/hour)	\$8.88	\$2.31	\$8.88	\$2.31
<b><u>TOTAL</u></b>	\$14.93	\$8.36	\$11.14	\$4.57
Inspections equipment - \$150 (monthly expense: phone, data plan, etc.)				

Source: October 2021 NAMFS Industry Survey

# Appendix C - Historical Comparison

## 2002

### Inspection Requirements:

- Standard form - MBA Type 1
- ~25 data fields
- Interior only on FHA vacant
- Additional ~20 interior data fields

### Photo Requirements:

- Single photo for FTV prior to initial secure
- Document visible exterior damages
- FHA only required interior with single photo for each room
- No labels or date stamps

## 2022

### Inspection Requirements:

- Lack of a standard form (most common is FNMA Form 30 + client specific questions)
- ~80 data fields minimum
- Interior on ALL vacant
- Additional ~40+ interior data fields minimum

### Photo Requirements:

- Average of 33 photos per interior/exterior inspection with labeling required
- Document visible and non-visible damages (foundations, roofs, HVAC, etc.)
- ALL Interiors – multiple photos of each room along with those detailing damages
- Average over 250+ photos on initial secure

# Historical Comparison (continued)

2002

## Systems Landscape:

- Fax results from field
- Polaroid were transitioning to hard copy photos
- Limited system integrations

## Volume/Location/Proximity:

- 2.24% of mortgages in delinquency with homeownership rate of 67.8%
- <10% in defined rural zip codes
- 90+% in urban zip codes minimized travel expense and time

2022

## Systems Landscape:

- Mobile required and often proprietary
- Multiple system levels
- Labeling of photos with multiple integrations
- Liability for NPPI
- Background checks required

## Volume/Location/Proximity:

- 2.27% of mortgages in delinquency with homeownership rate of 65.4% with 37% holding no mortgage
- ~30% in defined rural zip codes
- Travel expense increase
  - Rural location
  - Gas price - 199% increase (\$1.14 to \$3.41 with additional 33% since Jan 2022)

# Historical Comparison (continued)

2002

## Business Requirements:

- Limited bid items and eyeball estimates
- Majority of inspections completed from public right of way
- Personal Property – report only
- Evictions – more common
- Report visible issues

2022

## Business Requirements:

- Detailed bids with cost estimator verification (fails to address industry tiers)
- Walk the property, photos of all sides, utility checks required to determine occupancy
- Personal Property has own path including storage but failing to address disposal at end of storage period
- Significant decrease in evictions leads to increased legal and reputational risk
- Penalties can be assessed for issues that are not visible (foundation, storage tanks, damage behind walls, etc.).
- Bids and repairs are scrutinized based on subsequent conditions/information



# Historical Comparison (continued)

2002

## Safety Risks:

- Safety concerns were documented without financial consequences

2022

## Safety Risks:

- Safety concerns are not acceptable as a reason to not complete the inspection or preservation work. Financial consequences are severe
- Private property has to be accessed on foot
- Photo requirements that are not represented in the price. e.g. top-down photos of a roof
- Utility meter required or paid as a curbside inspection.....inspectors required to walk a potentially occupied property in area with the Castle Doctrine
- Lack of NPPI for the inspector causes safety risks

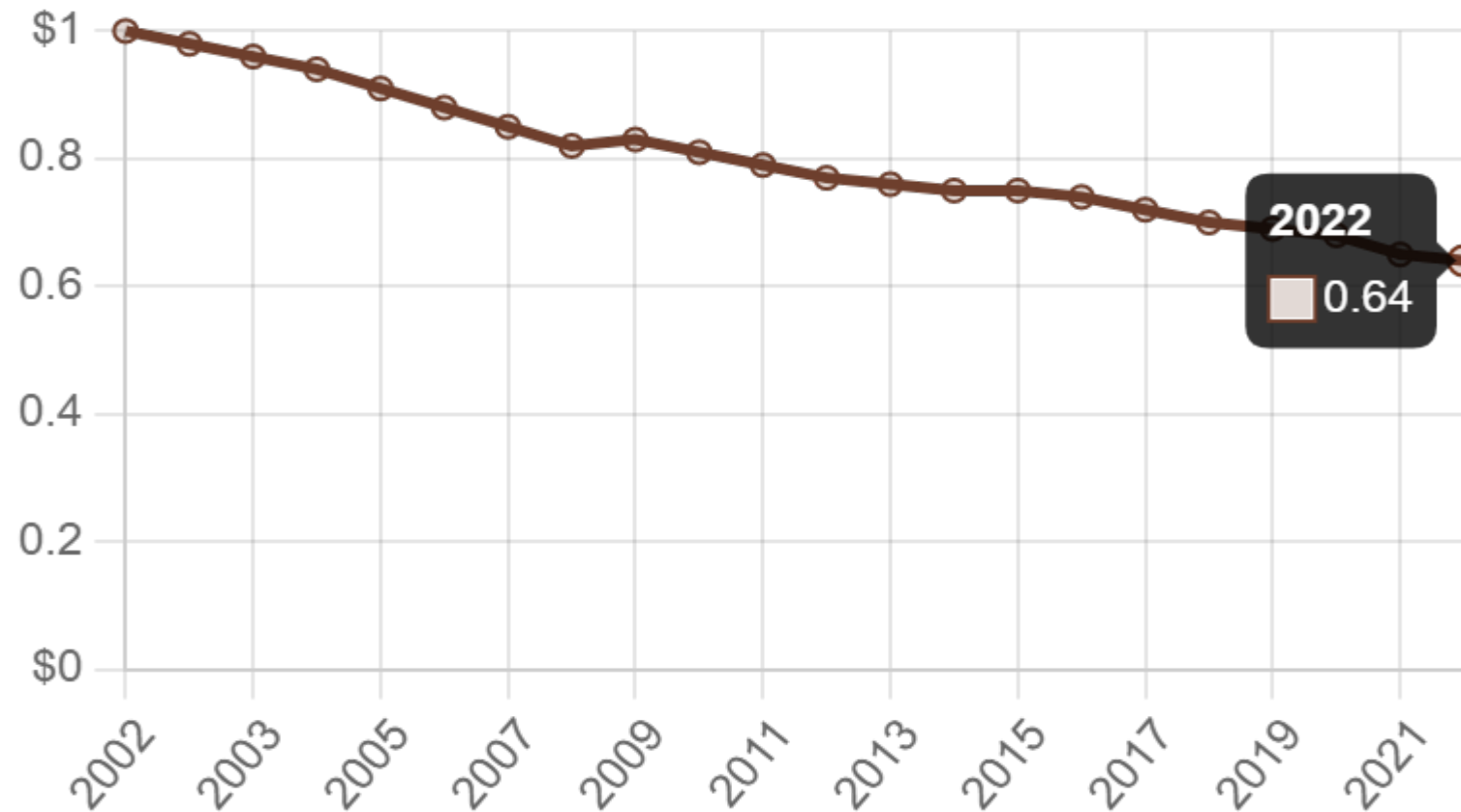
# Appendix D - Equitable Adjustment



- Cost of living adjustment:
  - From 2002 to December 2021, COLA increased 41.0%
  - From 2010 to December 2021, COLA increased 20.6%
- Inspections-specific example:
  - HUD ML 2002-10
    - Initial inspections allowable of \$30
    - Recurring inspections average allowable of \$20
  - With COLA, these items would be \$42.30 and \$28.20 respectively
- Other considerations exceeding COLA:
  - Materials: gasoline, lumber, etc.
  - Technology: integrations, equipment, increased complexity
  - Insurance: commercial general liability along with errors and omissions up 14% per year (higher in financial sector, auto, and other (Global Insurance Market Index – 2021 Q1 from marsh.com))
  - Insurance: agreements with indemnification language can invalidate policies and some specific states are difficult to write in this industry (NY, CA) due to dual path workers compensation paths

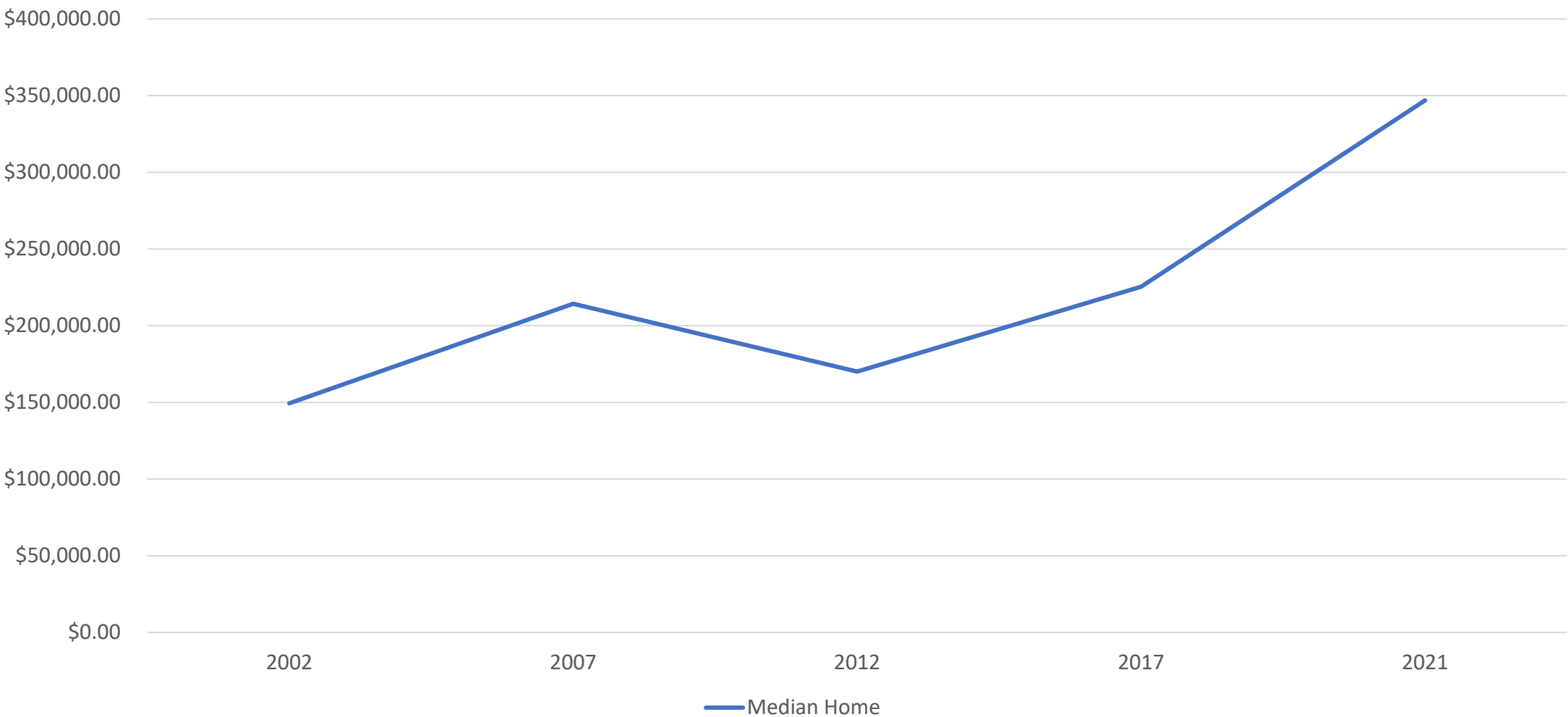
# Appendix E - Buying Power

## Buying power of \$1 over time, 2002-2022



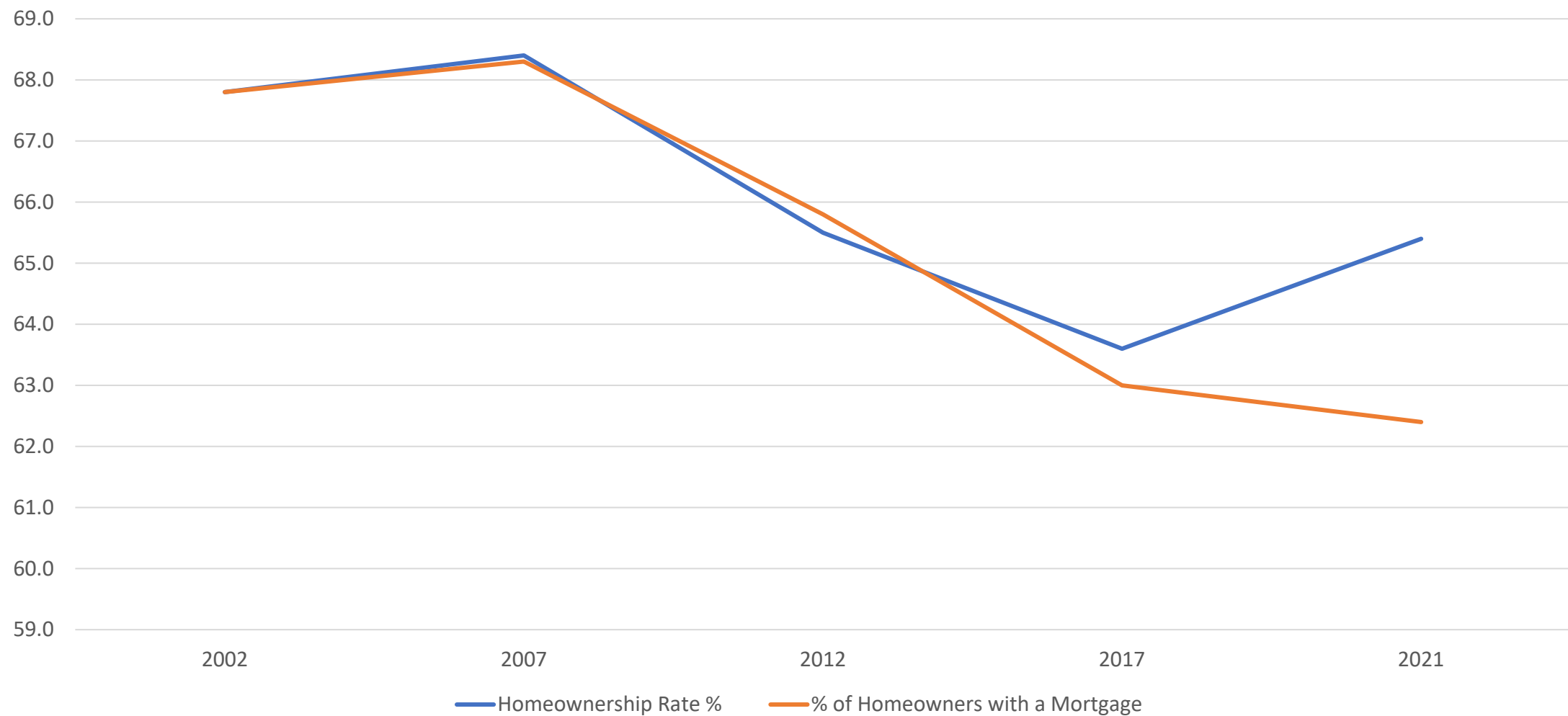
Source: BLS

# Appendix F - Median Home Price



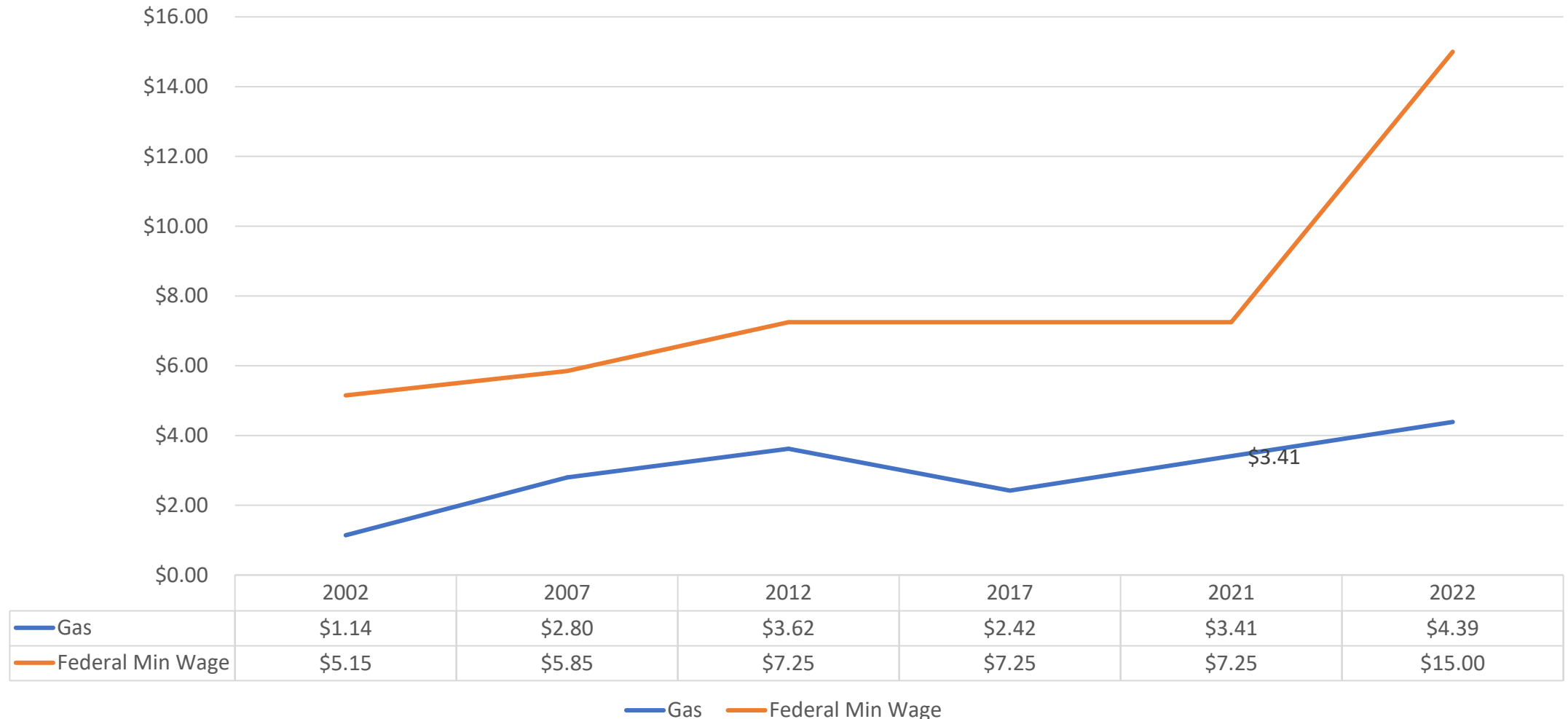
Source: DQYDJ.com – **Existing** Home Excludes New Home Construction

# Appendix G - Homeownership Rates



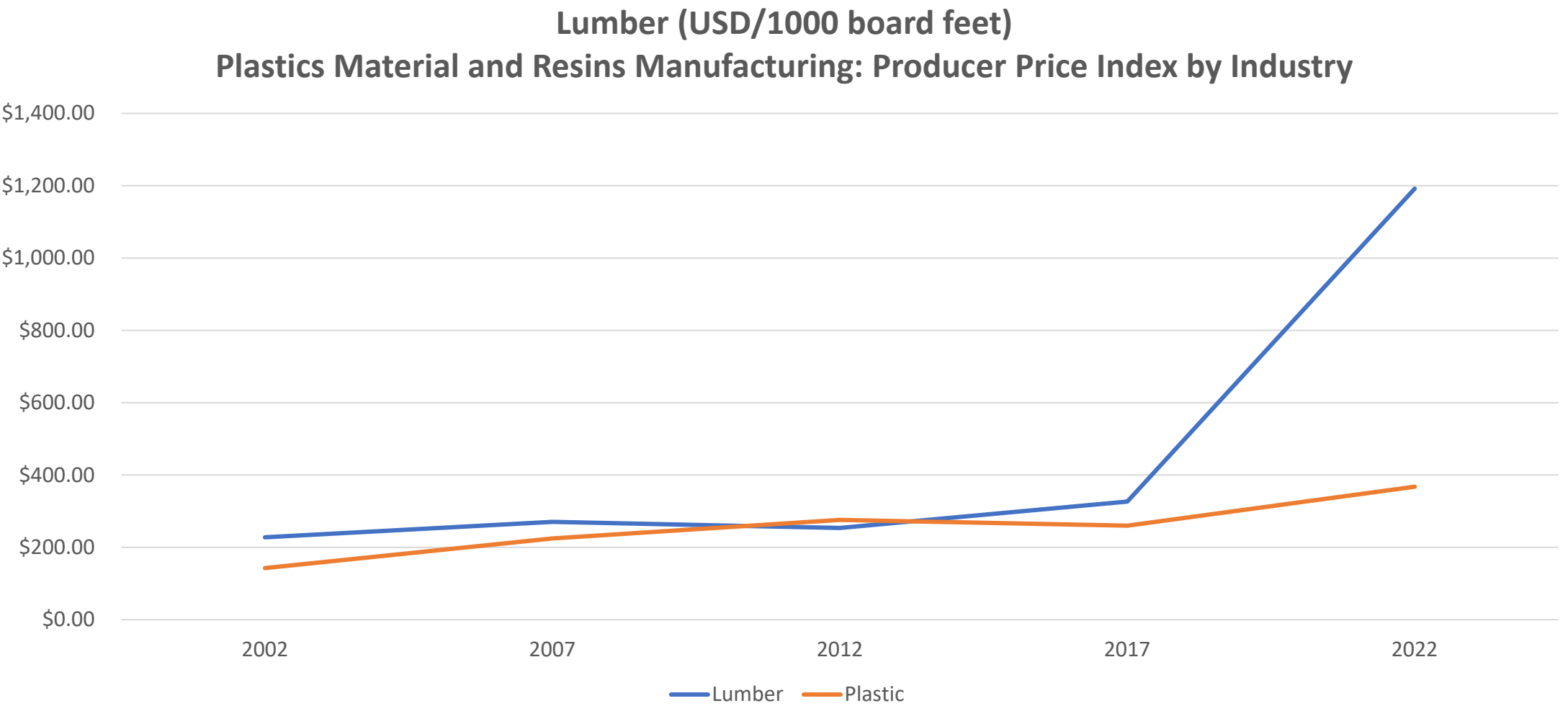
Source: Mortgage Bankers Association

# Appendix H - Gas and Federal Min Wage



Source: Gas – [eia.gov](http://eia.gov) Federal Minimum Wage – Department of Labor

# Appendix I - Lumber and Plastic Pricing



Source: St. Louis Federal Reserve

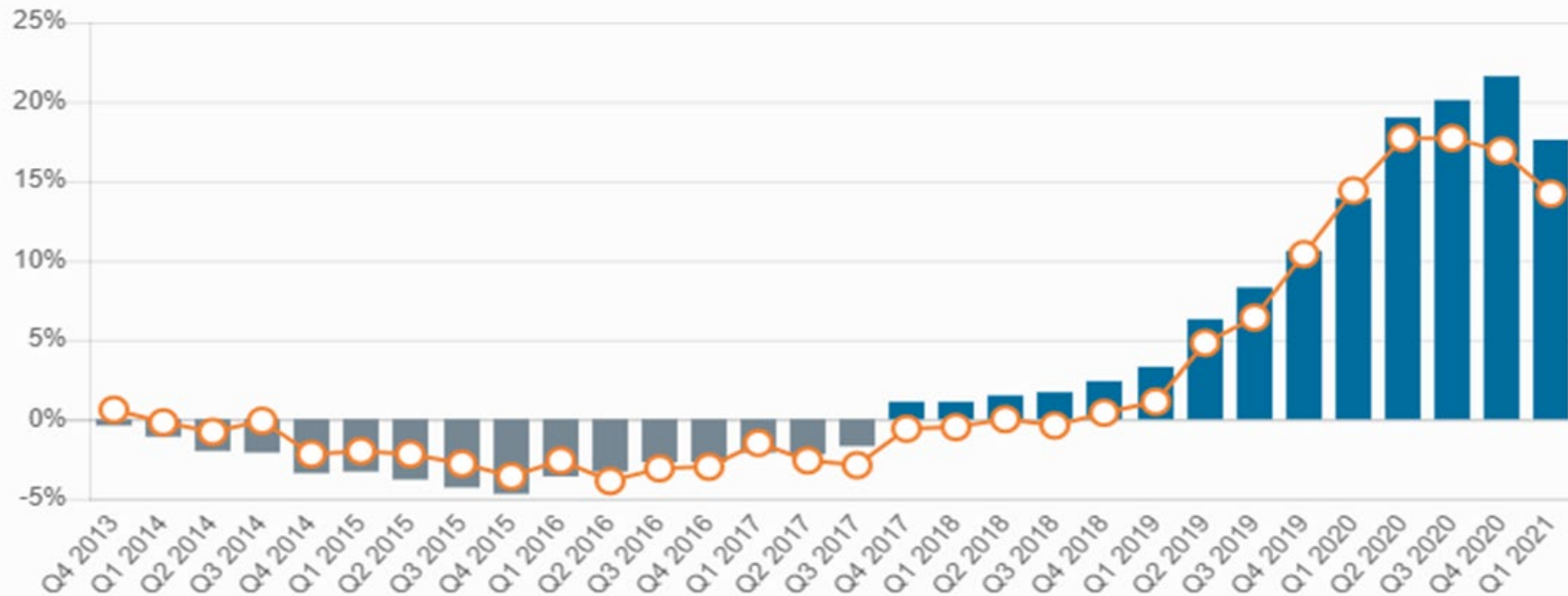


# Appendix J - Insurance Premiums

Constant bar chart represents Global Insurance Composite Pricing Change.

Choose a region:

US Insurance Composite Renewal Rate



Source: Global Insurance Market Index – 2021 Q1 from marsh.com