



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.

National Association of Mortgage Field Services (NAMFS)

- Oldest and largest mortgage field services trade association (established 1988)
- A leader in creating innovative solutions to industry challenges (current and future)
 - Contributed to the creation of the MBA Type 1 and 2 inspection forms
 - Shaped investor and government guidelines/direction by providing technical direction and best practices
 - Partnered in creating and implementing industry-standard vendor background checking
 - Hosted educational materials on defective drywall, employee misclassification, lead-based paint identification, and the NAMFS Academy certification courses
 - Created industry technology standards for photos, video, labels, tags, and reporting results
 - Created industry-standard Property Condition Report (PCR) and presented to MISMO (Mortgage Industry Standards Maintenance Organization)
 - Provided flexible guidelines and justification to increase allowable pricing for clear-boarding (attractive alternative to plywood)
 - Led effort to certify the industry as essential business during COVID 19 pandemic

Gate House Strategies

- Leading experts in housing, affordable rental housing, and the mortgage market including all aspects of the loan life cycle, from origination to claims including servicing, loss mitigation, and property disposition
- Unmatched experience and expertise with key components of the mortgage programs at HUD, FHA and the Government Sponsored Enterprises, including the oversight of risk management and policies governing execution for FHA, Ginnie Mae, Fannie Mae and Freddie Mac

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

- Property inspection and preservation is a vital component of risk management as home values increase (median home prices have increased 133% from 2002-2022 (\$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 including property preservation and inspections, due to a mass exodus of over 70% of the experienced vendors since 2015, due in part to:

- No adjustment in pricing for over 10+ years to offset increased costs, additional requirements, and increased risks
- Labor shortages
 - Capacity issues – currently 10-15% outside completion timeframes
 - 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)
- 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**)

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 on Slide 19 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 on Slide 20 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 (25) 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
- Pricing by investor/insurer by state

2022

- Inspection requirements lack standardization, extensive (80+) data fields and photos, visible and non-visible damages documented, interior on all vacant
- Complex technology with multiple systems integrations, volume/location/proximity disparate
- Detailed bid with cost estimator justification
- Penalties possible for non-visible issues
- Safety issues unacceptable as justification to not complete services with a financial impact
- Pricing often by client or lowest investor/insurer allowable

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

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
- Updates in 2016 allowables were below cost estimator justification
- 2022 update just 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 – Appendix K)
- 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

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Appendix

Appendix A (Data-Time)

FIELD INSPECTOR TIME AND MILEAGE	INTERIOR	EXTERIOR	RURAL (30%)	NON-RURAL (70%)
Average <i>miles</i> to drive to and from property			42.16	15.37
Average <i>time</i> 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
Technology – includes integrations, system(s) of record, etc.	\$5.25	\$5.25	\$5.25	\$5.25
Insurance – includes general liability, errors and omissions, auto, etc.	\$1.20	\$1.20	\$1.20	\$1.20
Quality Control – includes review of results and necessary adjustments	\$2.65	\$1.65	\$2.65	\$1.65
Admin/Management Overhead – 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
Mileage to property (IRS 2022 Rate - \$0.585/mile)	\$12.33	\$12.33	\$4.50	\$4.50
<u>TOTAL</u>	\$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
<u>TOTAL</u>	\$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)

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:

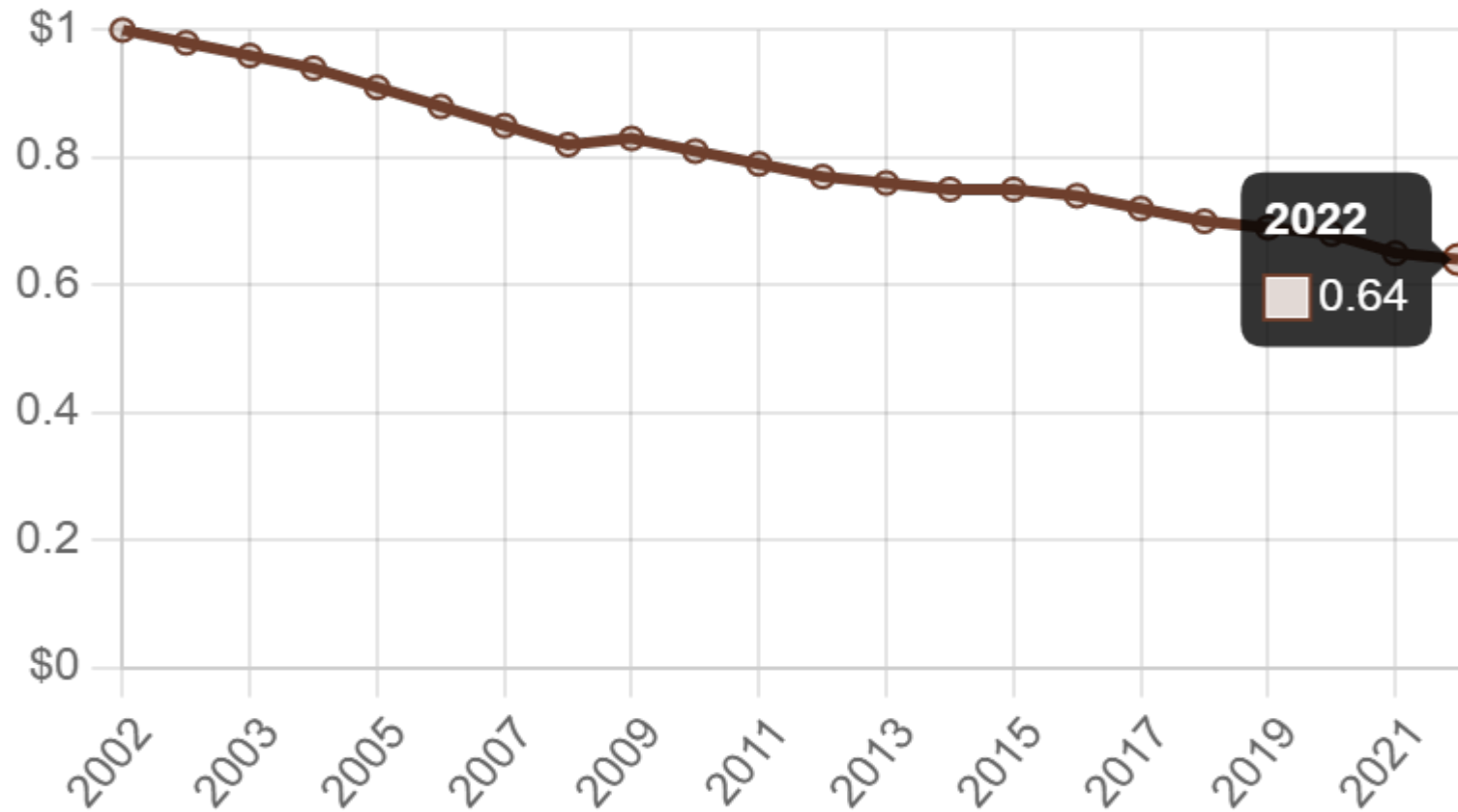
- Safety concerns are not acceptable as a reason to not complete the inspection or preservation work. Financial consequences are severe
- Private property has to be accessed on foot
- Photo requirements that are not represented in the price. e.g. top-down photos of a roof
- Utility meter required or 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

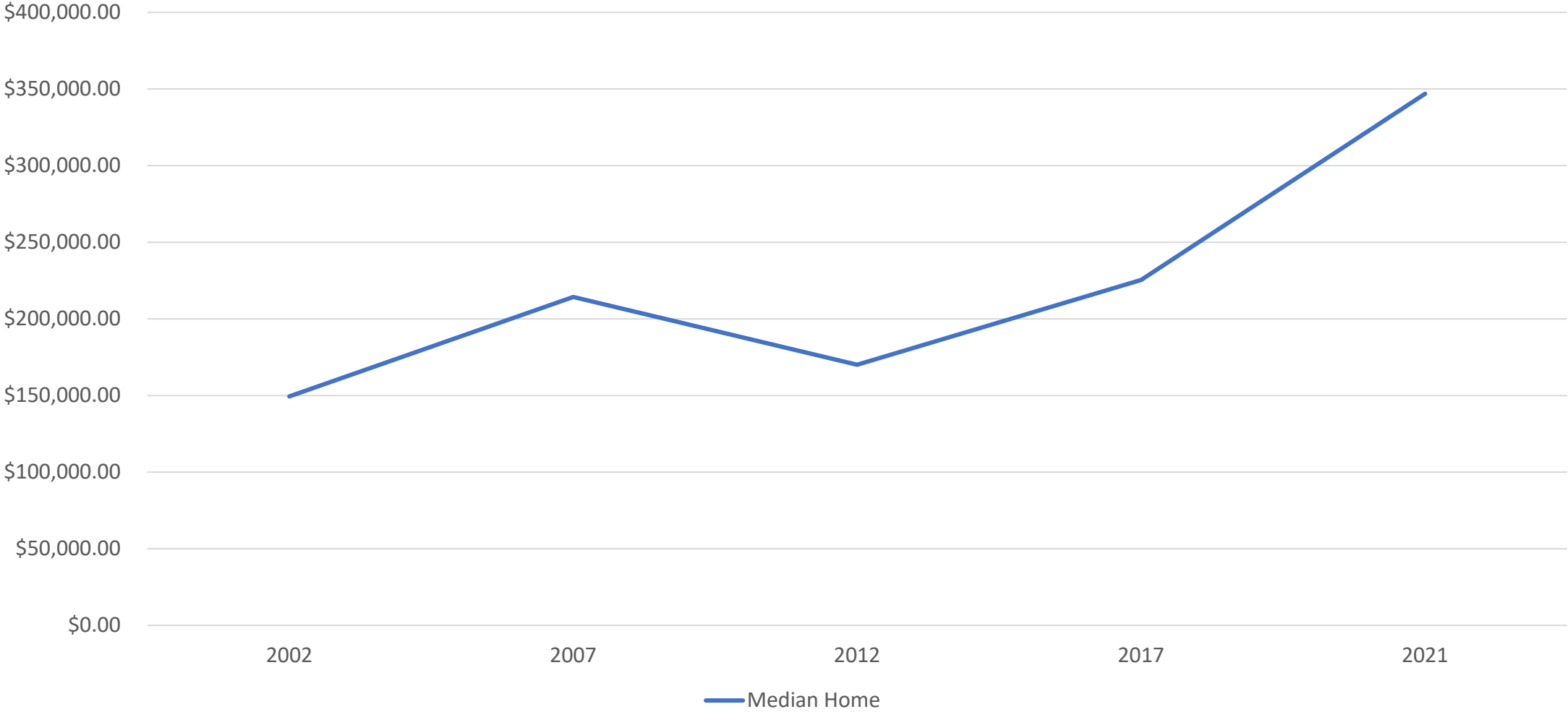
Appendix E - Buying Power

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



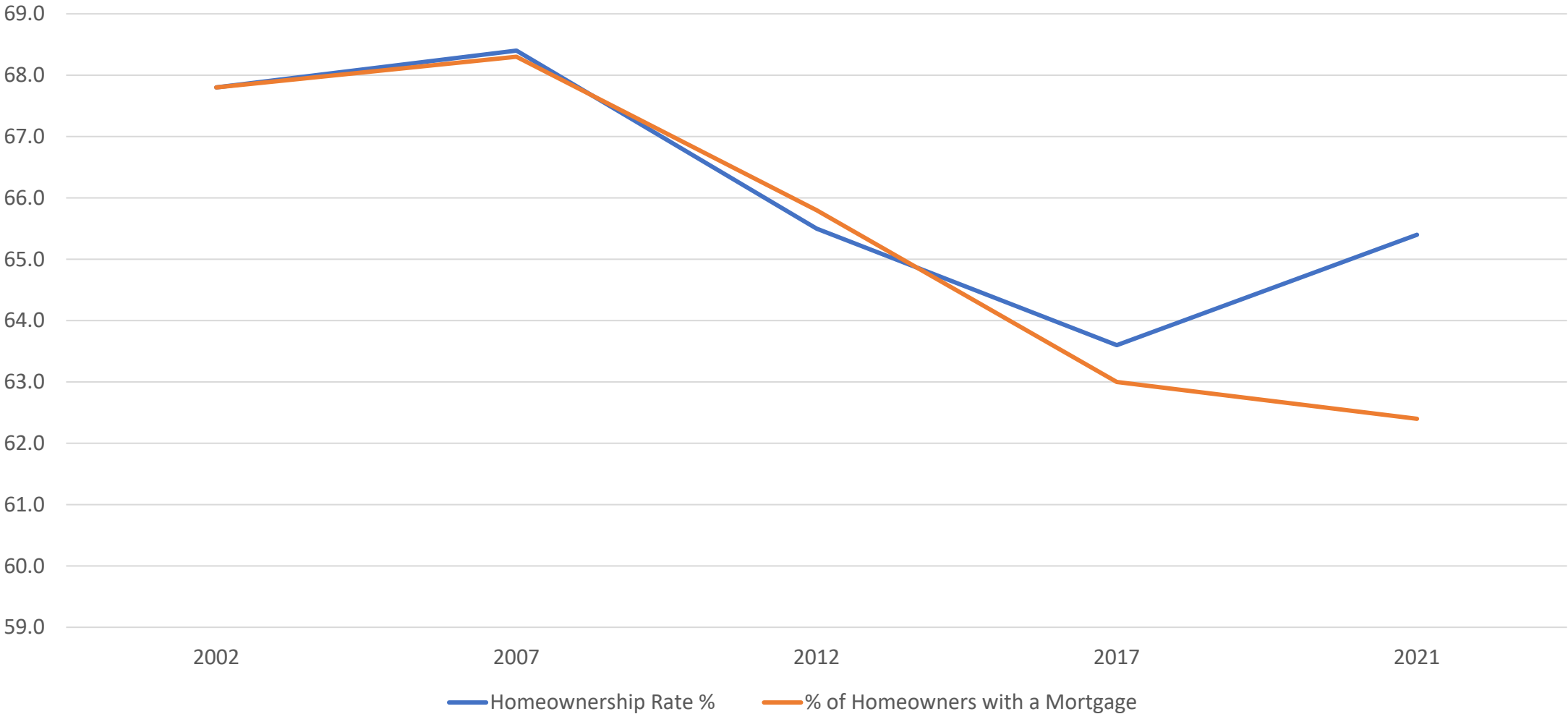
Source: BLS

Appendix F - Median Home Price



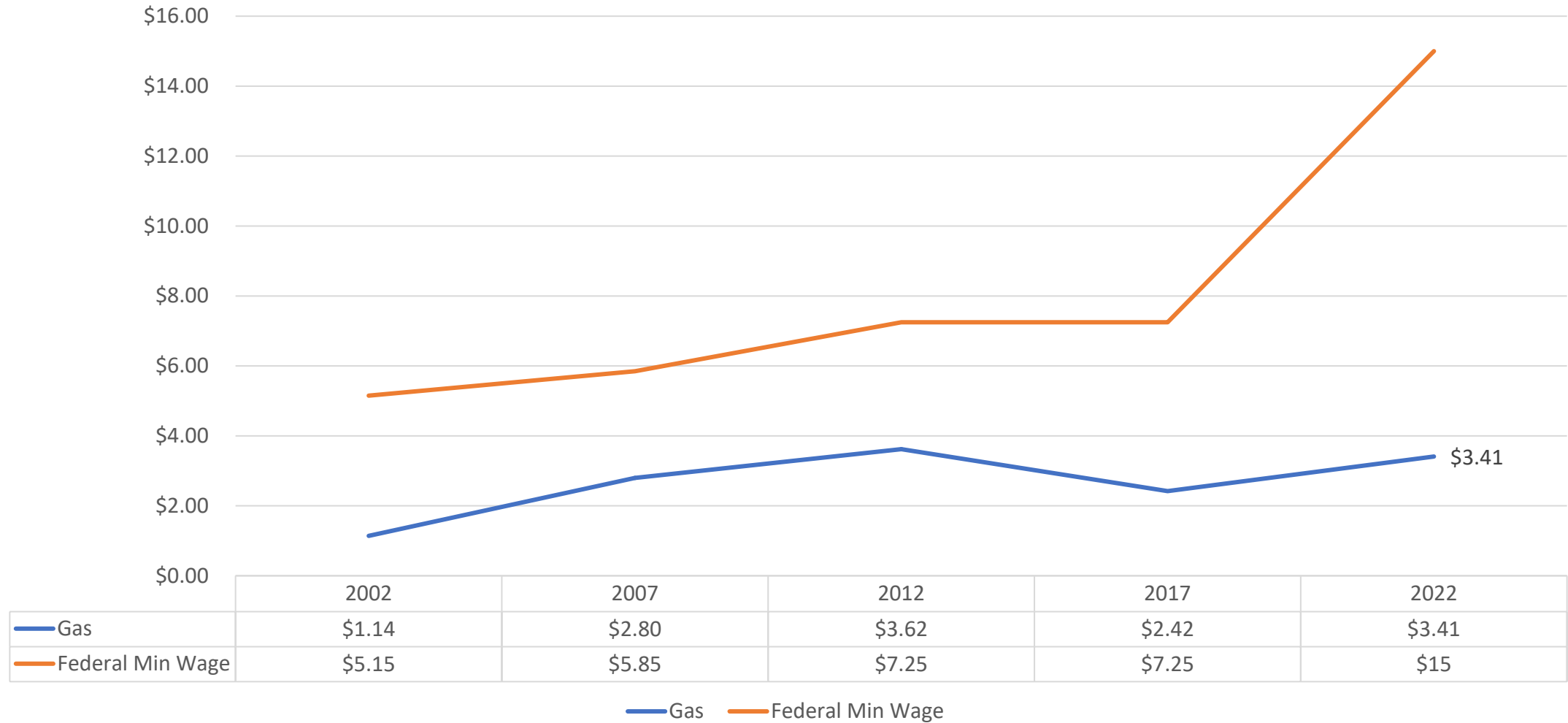
Source: DQYDJ.com – Existing Home Excludes New Home Construction

Appendix G - Homeownership Rates



Source: Mortgage Bankers Association

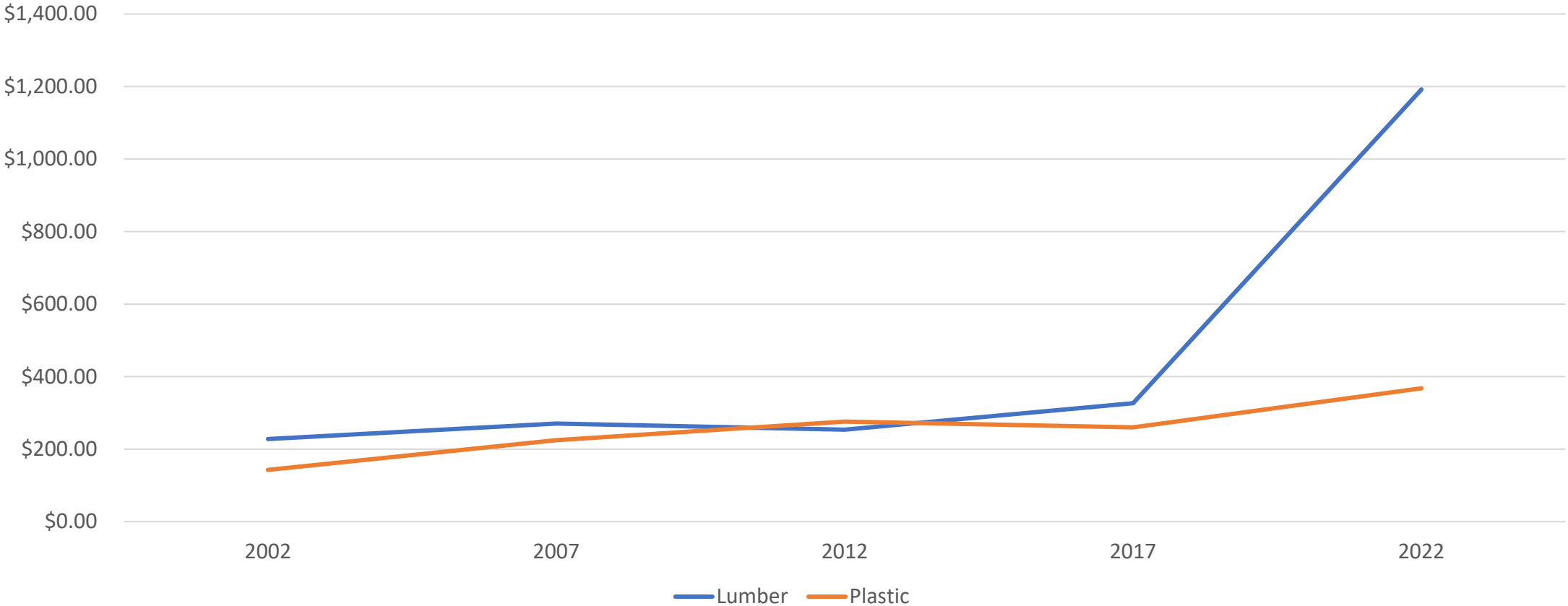
Appendix H - Gas and Federal Min Wage



Source: Gas – eia.gov Federal Minimum Wage – Department of Labor

Appendix I - Lumber and Plastic Pricing

Lumber (USD/1000 board feet)
Plastics Material and Resins Manufacturing: Producer Price Index by Industry



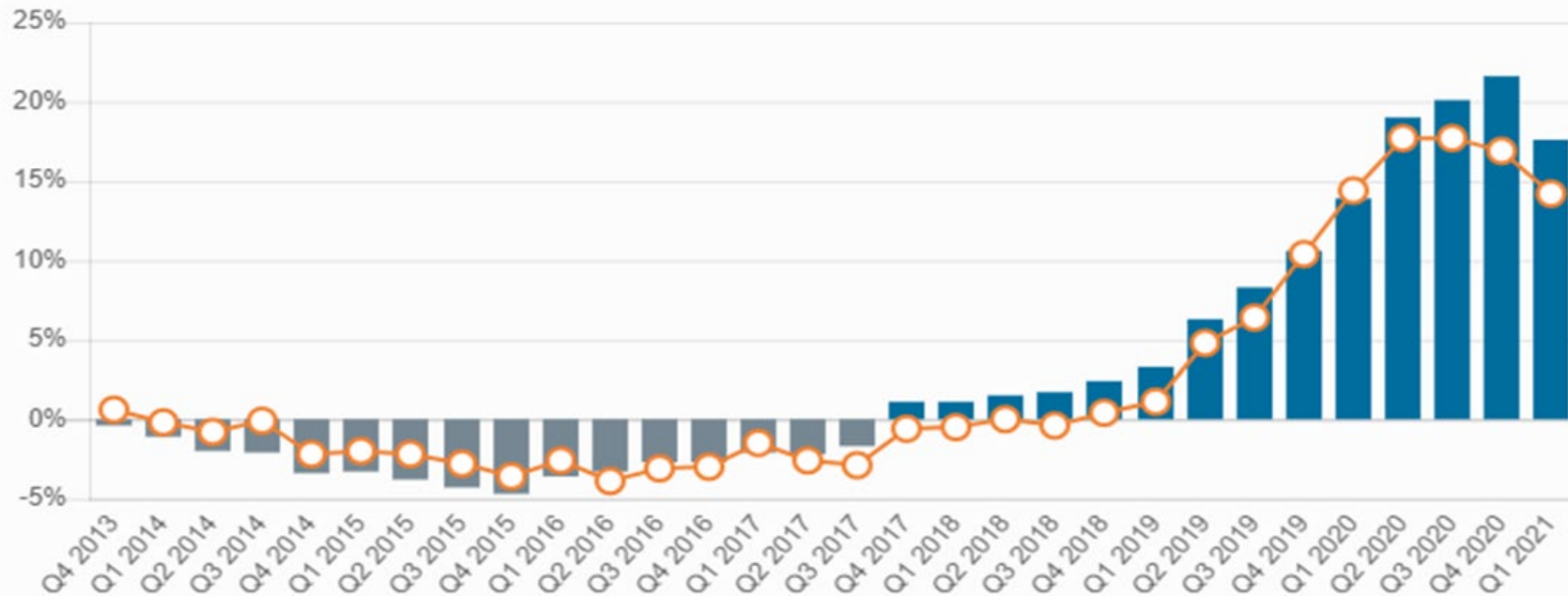
Source: St. Louis Federal Reserve

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

Appendix K - 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: _____

What Has Been Accomplished

NAMFS has met and presented to:

- Fannie Mae
- FHA
- Freddie Mac (indirectly)

NAMFS has provided our information to:

- MBA Servicing Committee
- Housing Policy Council
- Several Servicers

Inspection pricing was increased by Fannie Mae in May with an effective date in June

- Price was brought in line with FHA (\$20)
- Additional \$5 was provided for interior inspections (\$25)

Inspection pricing was increased by Freddie Mac in June with an effective date in July*

- Price was brought in line with FHA (\$20)
- Additional \$5 was provided for interior inspections

**Verbiage in announcement indicated this increase was temporary but no end date proposed*

What Are Next Steps

NAMFS has identified the following:

- Address Property Preservation pricing while continuing Inspections dialogue
- Extend our collaboration with Gate House Strategies
- Continue the dialogue with Investor/Insurers
- Expand relationship with MBA, Housing Policy Council and others
- Engage directly with Servicers
- Create solutions for the Industry (PCR, Inspections, and other Forms)

NAMFS needs support

- Financial – Call For Support following Leadership Summit
- Data – Key to painting accurate picture of industry. NAMFS understand the need to keep data private and will only rollup into single view.
- Key Relationships – Share this information and provide introductions if possible