



Mortgage Field Services Industry Update

An industry perspective on property inspection and
preservation pricing challenges

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
- Property Inspections
 - Timeframes, Expenses, Allowables
- Property Preservation
 - Timeframes, Expenses, Allowables
 - 2023 vs 2024 Comparison

Proposed Solution

NAMFS and MFS Industry Goals



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

- Property inspection and preservation is a vital component of risk management as home values increase (median home prices have increased 192% from 2002-2023 (\$149,428 to \$436,800))
 - 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 continue the dialogue about strengthening and improving the mortgage field services industry, including property preservation and inspections. Challenges in inspections and property preservation allowables persist. In this presentation, NAMFS has updated the inspection data and identified 10 common property preservation services to highlight the difference between the cost experienced by the supply chain and the allowables for said services.

Update on Labor Challenges

- Based on NAMFS' 2021 survey, over 70% of the experienced vendors have departed the industry since 2015, due in part to increased costs, additional requirements, and increased risks
 - Since our survey, several experienced vendors have left the industry and others are poised to do so unless changes are made
- 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
- 2023 purchasing power is 58% of 2002

Results:

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

Property Inspection Data

Background: Industry Comparison of Inspection Allowables



Inspection Type	FHA	Fannie Mae	Freddie Mac
Exterior	\$30	\$30	\$30
Interior	\$45	\$45	\$45

VA and USDA are current outliers and NAMFS is working

Background: Inspection 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)	\$28.46	\$26.41	\$19.68	\$17.63
Labor Cost – based on drive to property, time to complete service, and submit results (Detail in Appendix B 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: Inspection 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)	\$43.39	\$34.77	\$30.82	\$22.20
Current Allowable (FHA):	\$45.00	\$30.00	\$45.00	\$30.00
Difference between Expenses + Labor and Current Allowable (LOSS)	(\$1.61)	(\$4.77)	(\$14.18)	\$7.80

Conclusion: Current allowable currently supports the cost of the supply chain.

* Assumes \$15/Hr

Property Preservation Data

Background: Key Factors Impacting Preservation

- Cost of Materials which varies by the service*
- Labor Cost which varies by the service*
- Travel time to property plus with mileage**
- Average total supply chain expenses*

Not included in the survey costs:

- Profit
- Servicer pass-through costs
- Administrative Services
 - Obtaining Permits
 - Filing Property Registrations
 - Obtaining 2nd bids
 - Filing Extensions/Disputes

** Detail found in Appendix D (Source: Q1 2023 NAMFS Industry Survey)*

***Detail found in Appendix C (Source: October 2021 NAMFS Industry Survey)*

Cost Estimator & NAMFS Survey Comparison



Service	Blended Cost Estimator Q1 2023*	NAMFS Preservation Survey Q1 2023
Lock Change	\$ 111.91	\$ 106.08
Lockbox**	\$ 51.29	\$ 70.25
Padlock and Hasp	\$ 52.46	\$ 55.25
Boarding per UI***	\$ 1.28	\$ 0.93
Winterize Dry****	\$ 212.31	\$ 121.58
Winterize Wet****	\$ 305.54	\$ 315.58
Winterize Radiant****	\$ 496.53	\$ 439.58
Debris Removal	\$ 83.70	\$ 84.44
PCR w/Bids – Initial*****	\$ 95.30	\$ 75.58
PCR w/Bids – Recurring*****	\$ 49.74	\$ 43.58

* **Blended Cost Estimator – 4 independent CE tools with prices for each service in 8 MSAs (2 per HOC - 1 urban & 1 rural)**

** **Lockbox CE assumes additional services in conjunction with install**

*** **Boarding CE reflects carpenter vs laborer rate**

**** **NAMFS Data excluded Pressure Test, utilized a Laborer vs Plumber Rate, and does not account for risk of service**

***** **PCR CE utilizes Specialized Claim Adjuster vs Laborer rate**

Background: Preservation Expenses w/Labor vs Allowables



Service	NAMFS Preservation Survey Q1 2023	Current FHA Allowable	Difference
Lock Change	\$ 106.08	\$ 60.00	(46.08)
Lockbox	\$ 70.25	\$ 40.00	(30.25)
Padlock and Hasp	\$ 55.25	\$ 40.00	(15.25)
Boarding per UI	\$ 0.93	\$ 0.90	(0.03)
Winterize Dry (excludes pressure test)	\$ 121.58	\$ 100.00	(21.58)
Winterize Wet (excludes pressure test)	\$ 315.58	\$ 150.00	(165.58)
Winterize Radiant (excludes pressure test)	\$ 439.58	\$ 250.00	(189.58)
Debris Removal	\$ 84.44	\$ 50.00	(34.44)
PCR w/Bids - Initial	\$ 76.58	\$ 35.00	(40.58)
PCR w/ Bids - Recurring	\$ 43.58	\$ -	(43.58)

Conclusion: Current allowables do not support the COST of the supply chain.

Cost Estimator Comparison March 2023 vs. March 2024

* Blended Cost Estimator – 4 independent CE tools with prices for each service in 8 MSAs (2 per HOC - 1 urban & 1 rural)

** Lockbox CE assumes additional services in conjunction with install

*** Boarding CE reflects carpenter vs laborer rate

**** NAMFS Data excluded Pressure Test, utilized a Laborer vs Plumber Rate, and does not account for risk of service

***** PCR CE utilizes Specialized Claim Adjuster vs Laborer rate

Service	Blended Cost Estimator Q1 2023*	Blended Cost Estimator Q1 2024
Lock Change	\$ 111.91	\$ 114.15
Lockbox**	\$ 51.29	\$ 52.83
Padlock and Hasp	\$ 52.46	\$ 56.13
Boarding per UI***	\$ 1.28	\$ 1.22
Winterize Dry****	\$ 212.31	\$ 229.29
Winterize Wet****	\$ 305.54	\$ 329.98
Winterize Radiant****	\$ 496.53	\$ 536.25
Debris Removal	\$ 83.70	\$ 88.72
PCR w/Bids – Initial*****	\$ 95.30	\$ 100.07
PCR w/Bids – Recurring*****	\$ 49.74	\$ 52.23

Proposed Solution

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

- **Align** property inspection allowables with Fannie Mae and Freddie Mac **ASAP**
- Increase property preservation allowables to alleviate on-going industry cost challenges
 - This presentation does not address all preservation allowables in detail but all need to be addressed
- Re-assess current property inspection and preservation requirements and timelines
 - Conveyance timeline too short given current realities
 - Heavy penalties to service problematic properties that follow traditional disposition
- Institute periodic pricing reviews with industry participation
 - Cost estimators are updated on a quarterly basis at a minimum
 - IRS Mileage Reimbursement and SSA adjustments are annual
- Develop streamlined processes and a universal set of data points