



# REO Success Has a Local Address

**B**allooning real estate-owned (REO) inventories—a by-product of the severe housing market downturn—are putting lenders under significant pressure to speed asset disposition to qualified buyers and minimize portfolio losses. In these extreme business conditions, work backlogs and sheer numbers can reduce the focus on individual properties—a tendency that can easily lead to longer disposition cycles and lower selling prices.

## Localized control—your roadmap to success

Timely hands-on process management and localized control are the keys to property-by-property optimization of REO assets. With internal resources stretched thin, lenders/servicers typically seek the help of outside REO service providers to meet this challenge.

While many options are available, the ideal asset-disposition partner is one with first-hand knowledge of the property and its pre-sale history who can plan and execute property preservation/enhancement services, effectively handle municipal ordinance and code-compliance issues and—most important—objectively assess, select and manage local brokers.

This structure recognizes that the choice of broker, like other REO decisions, is best made on a neighborhood-by-neighborhood, property-by-property basis. Equally important, it provides local independent oversight of broker marketing efforts—a key step in optimizing REO results.

## Strength where it matters

To improve REO results, stronger field execution is the first priority. Servicers need to look for an REO asset-management partner with an integrated nationwide network of field service professionals that can act quickly and effectively to optimize the value and marketability of their REO properties. The key word here is *integrated*. REO asset-management companies with a national footprint and integrated local field organizations are able to eliminate the extra layers of management that plague many REO programs. The result: fewer reporting levels, improved accountability and more effective REO decision-making.

Of course, securing and maintaining the physical asset—though important—is just one variable in the field service equation. To ensure better outcomes at every phase of REO asset disposition, the provider must be capable of monitoring and efficiently managing its entire network of inspectors, contractors and real estate professionals, as well as title companies, law-enforcement officials,

attorneys—every party touching the REO process.

If the asset-management partner has also been the provider of pre-sale field services, so much the better. The advantage: Early and direct exposure to the property arms the asset-management partner with the property-specific knowledge and experience needed to apply the most efficient, effective approach for each REO asset.

## Not all networks are created equal

Field service network strength is an important predictor of REO program success. Certification and training are essential to ensure that inspectors, contractors and other network members are properly qualified for the field services they provide.

This requirement favors REO service providers with permanent nationwide networks whose members are carefully screened and required to demonstrate ongoing adherence to strict industry licensing and performance standards. Providers whose field service teams are recruited on an as-needed, *ad hoc* basis may find it difficult to satisfy this requirement.

## The rewards of end-to-end control

Servicers can expect a number of benefits as they strengthen relationships with integrated REO service providers capable of working effectively across both pre-sale and post-sale fronts. These include:

■ **Reduced costs.** Lower commissions and/or fees, economies of scale and stronger asset control with fewer compliance problems provide substantial cost-saving potential.

■ **Shorter asset resolution cycles.** Actively managed brokers tend to move REO properties in less time than do unmanaged brokers. Working with asset-management partners offering direct local monitoring of individual brokers, lenders can expect to move properties in 90 days or less. Re-assigning unsold properties to new brokers—a costly and time-consuming process—is rarely needed. In addition, when resources are focused at the neighborhood- and individual property-level, there is a greater likelihood of properties selling above asking price.

■ **Smarter property marketing.** Pre-marketing includes recommending auction or traditional sales methods, preparing a detailed property/market analysis and providing turnkey auction management or assigning a broker, as appropriate. The REO asset-management partner also provides independent oversight of the valuation process, including securing and validating BPOs. Once a plan is in place, REO service providers offering direct local control

**F**ield service network strength is an important predictor of REO program success.



and oversight can mount complete marketing campaigns, including detailed monthly marketing reports. Most important, they can assume full responsibility for individual broker monitoring/evaluation—a distinct advantage over the arm's-length broker relationships characteristic of many REO asset-disposition programs.

■ **Complete closing services.** Well-qualified REO asset-management organizations can provide the people and expertise to coordinate and certify closing documents, organize and attend the closing, collect and distribute funds, and disseminate closing information—all in strict accordance with client, legal and regulatory requirements. Title procurement, HUD-1 review and approval, escrow/closing coordination—these capabilities are well within the scope of full-service REO asset-management organizations prepared to excel in the new integrated service environment.

### Technology-plus

To optimize their advantages, leading REO service providers incorporate advanced management technology into their programs, enabling servicers to monitor and evaluate every aspect of their REO program—as well as property pre-foreclosure events—with paperless, point-and-click convenience.

Fully effective REO process management technology allows lenders and their service partners to organize and track all REO tasks and events, maintain communications with all parties in a real estate transaction, meet all regulatory and lender requirements, and ensure a clear audit trail.

Technology can also improve on-the-ground performance and efficiency. For example, enabling contractors to enter critical data directly from the property location enables them to instantly verify property status.

### Targeting results

Inflated REO inventories—complicated by ongoing market pressures and a more demanding regulatory environment—will continue to drive the agendas of lenders/servicers and their REO asset-management partners as both work to improve and streamline REO-disposition processes. Long-term success will favor REO service providers with the integrated field service networks, innovative technology and broad-based expertise needed to deliver end-to-end REO solutions that optimize REO results.

---

Joe Bada is chief executive officer of Warren, Michigan-based Five Brothers, a provider of default management and technology solutions to the mortgage servicing industry. He can be reached at [joe@fiveonline.com](mailto:joe@fiveonline.com).

---

### CAPITAL BUZZ FROM PAGE 26

session begins on Jan. 3 each year, unless the Senate picks another date, and continues until a *sine die* (end of the day) adjournment, which usually happens in the fall. A recess is just a break in the proceedings of a session, and it can't last for more than three days unless both the House and the Senate agree to it. A recess while Congress is in session is called an "intrasession," and a recess called between the *sine die* adjournment of the Senate and the convening of the next session is called an "intersession."

The controversy surrounding Cordray's appointment arose because the Senate was not, technically speaking, in recess at the time because it continued to meet in a *pro forma* session every three to four days. A *pro forma* session is usually called to avoid the adjournment clause requirement that both houses of Congress agree to a recess and no actual work is done in these sessions. If there were a legal challenge and a court were to find that the Senate was actually in session when the appointment was made, then the president did not have the authority to make the appointment and any action taken by Cordray as director would also be unauthorized.

Assuming that the Senate was in recess and that Cordray's was a legal appointment, there is still some uncertainty surrounding how long his term will last.

While by statute a nominated and confirmed director would serve five years, if the appointment was made before the second session of the current Congress officially began, Cordray would serve until the Senate adjourns in the fall of 2012. If the appointment was made after the second session

began, he would serve until adjournment in 2013. The press release issued by the White House on Jan. 4 states that "President Obama announced today his intent to recess appoint" Cordray—so it's not clear when the appointment was actually made. This could prove to be yet another bone of contention.

A former Senate-confirmed presidential appointee who wishes to remain anonymous says that a permanent director will eventually have to be nominated and confirmed by the Senate, which is unlikely to happen if the Republicans can successfully continue their filibuster over having a director instead of a board of directors in charge of the CFPB.

This source also says that Cordray is rumored to be interested in running for governor in Ohio, and that the appointment gives him the visibility and gravitas to launch that campaign in time for the gubernatorial election in 2014. Other sources say that the appointment enables the work of the CFPB to continue until after the 2012 elections, which the Obama administration hopes will turn the political tables and result in Cordray's confirmation.

The uncertainty surrounding the appointment, and differing legal opinions on its legality, means that actions taken by the CFPB under Cordray's ambitious agenda may be subject to challenge in the courts. But unless and until that happens, the industry would be well advised to pay close attention to "the man with the gun."

---

Ann Fulmer (based in Washington, D.C.) is vice president of business relations at Agoura Hills, California-based Interthinx. She can be reached at [afulmer@interthinx.com](mailto:afulmer@interthinx.com).

---