The
REO
Crisis

A s we all know, defaults, workouts and foreclosures will continue to be the norm for some time to come. These market conditions are turning investors into landowners and whole neighborhoods in some areas of the country are inundated with vacant homes. What does all this mean? According to CNBC, "in California, median home prices took their steepest dive in May, down 8.2 percent year over year to $280,000, as distressed sales made up more than half the market… Fannie acquired 53,549 foreclosed properties in the first quarter, up from just under 46,000 in the previous quarter."

Because of the extent of the foreclosure/REO problem there are even proposals circulating that would force the GSEs to actually become landlords and rent these vacant homes. That would result in a whole host of new issues as the GSEs are not set up to act in this manner. So, how do we solve this crisis? Joe Badalamenti (left) and William Walsworth of Five Brothers share some ideas:

As the industry struggles to deal with the aftermath of the mortgage crisis, Five Brothers has stepped in to help investors tackle their REO disposition woes.

Q: What are the key trends and most pressing issues facing servicers as it relates to field services?

JOSEPH BADALAMENTI: Among the issues facing today's mortgage servicers, strict property conveyance rules and other HUD mandates represent one of the most pressing. Bid procedures, covered work, dollar thresholds, submittal protocols…they're all part of the details that – aggravated by increased numbers of foreclosed properties – can threaten the servicer's ability to meet strict HUD conveyance rules and regulations. If unchecked, the added costs – including interest penalties and denied claims – can quickly escalate from minor irritant to major financial pain.

To help client's address these concerns, Five Brothers has created a series of support solutions that help servicers eliminate frustrating and potentially costly conveyance problems, while improving the value of their FHA-backed mortgage assets. These solutions can lead to highly efficient, fully compliant servicing and foreclosure processes for every FHA property in the servicer's portfolio, results we're already achieving with a 99% success rate for many of our clients."

Q: Can you give some specifics?

WILLIAM WALSWORTH: One example is our ClaimSys technology, which expedites fully compliant FHA claims by allowing servicers to complete HUD claims sections A through E, faster and more efficiently. Using ClaimSys, servicers can lower claims processing costs and improve productivity, while producing virtually error-free results."

INSIDER PROFILE

Joseph Badalamenti got his start in the default management industry in 1967 as a HUD contractor. Now, 43 years and millions of inspections later, As CEO Badalamenti has built Five Brothers into a highly successful and respected industry leader offering a full range of default management services and technology solutions. His strong belief in client-centered partnering has spawned a nationwide network of highly effective customer and field service professionals.

INDUSTRY PREDICTIONS

Joseph Badalamenti thinks:

1 The mortgage industry will increasingly turn to outside default management partners as servicing requirements continue to become more numerous and complex, and internal staffing and related overhead costs rise.

2 There will be a growing need for specialty technology solutions that automate the resolution of real estate owned (REO) assets.

3 Lenders, servicers and asset management companies will face an expanding array of regulatory requirements, including a myriad of code compliance requirements and local vacant property ordinances.

Assuring bid accuracy is another way we're helping servicers minimize conveyance missteps. Using the latest HUD-approved cost estimator, Five Brothers streamlines bid validation and submittal by automatically resolving non-conforming repair/maintenance bids to meet HUD specifications. By confirming bid accuracy prior to submittal, this technology helps servicers speed work completion/reimbursement cycles, drastically reduce bid rejections, and lower administrative costs.

HUD P260 bid data entry is also an important piece of the HUD conveyance challenge. As FHA specialists, we're now providing bid data entry into the HUD P260 portal as part of our service platform. We're finding that this added service goes a long way toward relieving client compliance worries, while drastically reducing processing time and helping ease workflow bottlenecks.

Notification of completed P260 bid entry is automatically posted to client's secure section of Five Brothers' FiveOnline web-based workflow management system. Using the HUD P260 portal, mortgage servicers then simply accept the completed P260 bid, resulting in a simpler, faster, more accurate bid process.

JOSEPH BADALAMENTI: Meeting the compliance challenge means having the right information in the right hands at the right time. Our in-depth ongoing involvement with FHA-backed properties positions us to communicate HUD rule changes to clients, customer service staff and members of our field service team, as they happen. We do this through our FiveAlerts online news updates, blanket e-mails, and postings to our FiveOnline workflow management portal, reinforced through a rigorous multi-level quality control process.

Q: In addition to FHA/HUD compliance, do you see other important regulatory issues on the horizon?

JOSEPH BADALAMENTI: Locally-based compliance challenges are becoming more numerous. One example: Municipalities throughout the country are enacting regulations requiring registration of vacant properties, typically requiring information on how long the property has been vacant, plans for the property and who to contact in case of an emergency. With municipalities continually enacting or modifying their own versions of such regulations, compliance can be a difficult and complex task.

To help address this issue, we maintain and continually update a nationwide vacant property ordinance database. Clients are automatically alerted to changes and have direct access to the database through our FiveOnline workflow management portal. Five Brothers manages the registration process from start to finish, establishing rapport with municipal authorities, notifying mortgagees, filling

out and submitting registration forms and coordinating actions needed to assure compliance."

As the volume of unoccupied and foreclosed properties increases, code compliance is also demanding increased attention. The key is to address code compliance problems before they occur and violation notices are issued. We've taken the initiative by building strong lines of communication between the client and enforcement officials, and continually updating our field service personnel on current code compliance issues and potential violations, so they can be addressed early in the P&P cycle. Should a violation occur, we provide itemized estimates of work needed to bring the property into full code compliance."

Q: How is technology helping to improve results for today's mortgage servicers?

WILLIAM WALSWORTH: There are a number of very good mortgage servicing technology platforms. In many cases, however, legacy systems may not fully address specialized requirements arising from the kind of dynamic, fast-evolving market we find ourselves in today. Our approach has been to create a suite of innovative, regulatory-compliant solutions, each optimized for a specific requirement or task, and each tailored to the client's unique needs and business opportunities. We're seeing servicers use these solutions – which are fully compatible with all major mortgage servicing platforms – to save time, eliminate errors and increase process efficiencies across the enterprise.

JOSEPH BADALAMENTI: Our FiveOnline workflow management system is a case in point: With convenient and secure 24/7 online access, this web-based workflow system enables fast and efficient ordering, tracking and management of all default management services. It's a very robust, image-based system: FiveOnline streamlines order placement and invoicing, provides on-demand retrieval of documents and photos, and instantly generates work

status updates and property condition reports. And by using FiveOnline to generate management reports, system users can accurately track performance and costs over time."

However, there's more to FiveOnline than paperless workflow management. It's actually a portal providing instant, single-screen access to all kinds of functionality, including vacant property registration, HUD claims processing, completed HUD P260 data entry notification and much more.

WILLIAM WALSWORTH: Of course, technology is playing a vital role in other challenges, as well. Many servicers, for instance, continue to struggle with the inefficiencies and high costs of traditional document handling processes. Expanding regula-

tions, shifting market conditions and new business demands can easily overwhelm existing document solutions. Our MARS document management/processing system is a scalable, regulatory-compliant solution created specifically to address these issues by speeding and simplifying data aggregation, task management, tracking and reporting."

Utilizing Optical Character Recognition (OCR) technology, MARS allows for high-speed scanning, extraction, transmission, collection and dissemination of mortgage data. We designed MARS to be applied as a stand-alone solution, but it can also be integrated with virtually any existing document management system to eliminate document loss, increase accuracy and enhance information security.

IntelliStorage, an enhancement to our

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MARS technology, focuses on secure document storage and retrieval. Functionality includes hi-speed scanning, intelligent document classification (indexing) and file access through a secure web-based interface. Loan-level indexing makes it fast and easy to retrieve and organize files linked to specific business tasks. By better integrating content with business processes, mortgage servicers are able to reduce cycle time, streamline workflow and increase productivity.

Q: How is technology helping servicers deal with elevated volumes of loan defaults and foreclosed properties?

WILLIAM WALSWORTH: Well, there certainly are opportunities to improve productivity and results at various stages of default management. One area ripe for automation is loan modifications. We've responded with our MOTZ loss mitigation software, which enables mortgage servicers to quickly modify loans in full compliance with HAMP and FDIC guidelines. With new levels of speed, efficiency and accuracy, MOTZ allows mortgage servicers to quickly identify up to 1,000 curable and non-curable loans per minute, saving time, streamlining operations and reducing foreclosure losses.

MOTZ accelerates loan analytics, determines correct loan modification parameters and instantly generates cover letters, amortization schedules and loan documents. It's easy to use, integrates smoothly with most existing mortgage servicing systems and fully complies with all FHA, Fannie Mae, Freddie Mac and VA regulations.

INSIDER PROFILE

In 1995, William Walsworth joined Five Brothers as Chief Information Officer, developing all of the Five Brothers technology solutions. Walsworth provided Five Brothers' clients with efficient and effective solutions for loss mitigation, asset preservation, loan modification and HUD claim processing, as well as document management, scanning, archival and retrieval. Prior to joining Five Brothers, Walsworth served as a senior systems analyst at Hong Kong & Shanghai Banking Corporation in New York before becoming President of GNU Software Development in Ann Arbor, Michigan.

INDUSTRY PREDICTIONS

William Walsworth thinks:

1 Tablet technology will be utilized to provide real-time onsite property reports.

2 HTML 5 will break out, providing for feature rich web-based applications to replace typical desktop applications.

3 4G and GPS will allow video and voice data to be streamed directly from a property using a personal computer, tablet or smart phone, allowing instant, real-time review of property condition.

Another challenge for mortgage servicers is processing of HUD's Single-Family Application for Insurance Benefits, required for all FHA-insured defaulted properties. Manual systems can be time consuming and costly. Even small errors can lead to lengthy delays in claims resolution. Working with your existing claims processing program, or as a stand-alone, ClaimSys populates required fields allowing servicers to complete HUD claims A through E in compliance with HUD rules quickly, efficiently and virtually error-free.

Q: What are the most pressing issues the industry is facing in preserving and maintaining REO properties?

JOSEPH BADALAMENTI: Industry wide, preserving and maintaining REO properties has taken on increased importance as foreclosure rates have risen and regulatory compliance has become more urgent and complex. The servicer's first step in navigating these new realities is to find the right field services partner – one well matched to the servicer's particular needs and unique business circumstances. Choosing the right field service provider can go a long way toward reducing REO losses and boosting asset returns.

In our experience, an effective partner must be able to provide both pre-foreclosure services, such as property preservation, inspections and valuations, and REO services, such as occupied property management, pre-marketing services, marketing services, and closing and title services.

There's no question: Effective pre-foreclosure programs – what happens before a property falls into the REO column – are vital to making the most of REO property assets. Property preservation, inspections and valuations are the foundation of asset value. Getting them right makes downstream REO tasks a whole lot easier and more effective.

Q: What are the keys to improving REO results?

JOSEPH BADALAMENTI: Strong field execution is certainly one of them. Servicers need to look for a provider with a nationwide network of experienced field service professionals that can act quickly and effectively to optimize the safety, value and marketability of their REO properties. This is much more than simply securing and maintaining the physical asset – the provider must retain REO professionals – including vendor management specialists and broker specialist teams – capable of working closely with real estate professionals, vendors, title companies, law enforcement officials and attorneys to assure better outcomes at every phase of REO asset disposition.

WILLIAM WALSWORTH: Effective REO management technology allows servicers 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 assure a clear audit trail. ❖